

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2009**

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INDEPENDENT AUDITORS' REPORT**

CITY OF FERNANDINA BEACH, FLORIDA

SEPTEMBER 30, 2009

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina Beach, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fernandina Beach, Florida (the City), as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2009, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and other required supplementary information on pages 50 through 58 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Certified Public Accountants

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

The Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina Beach, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance projects, as required by OMB Circular A-133, *Compliance Supplement*, is presented for the purpose of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance projects has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Purvis, Gray and Company, LLP

February 11, 2010
Tallahassee, Florida

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2009**

The management of the City of Fernandina Beach (the City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2009. The City's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

HIGHLIGHTS

Financial Highlights

- The net assets of the City exceeded its liabilities at the close of fiscal year 2009 by \$55,750,623. Of this amount, \$11,866,088 may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental revenues decreased by \$5,647,915 or 26.7% when compared to fiscal year 2008. Governmental expenditures decreased \$3,273,195 or 15.6% over 2008. The Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses of \$5,509 in the General Fund is almost a breakeven. The Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses of \$2,088,696 for Total Governmental Funds is due to \$3,135,908 less Intergovernmental (grant) revenue in the Capital Improvement Fund in 2009 compared to 2008.
- Business-type activities (the City's enterprise funds) total revenues increased by \$72,123. Grants associated with the Marina increased more than \$1 million while grant revenue at the Airport decreased \$274,024. Operating expenses increased \$275,487, or 2.3%, compared to last year. The largest operating revenue increases were in the Airport, \$614,048, and Sewer \$743,766 funds. The Airport recorded \$533,000 early in the fiscal year for the release of land for an easement providing access to Crane Island. The change in rate structure is primarily responsible for the increase in the Sewer revenue.
- The City's total debt including compensated absences decreased by \$448,839 during the current fiscal year. The only significant addition, \$1,300,000 was for new Marina debt.

City Highlights

The City held the combined ad valorem property tax rate to 4.2209 mils, the rollback rate. Due to a \$77 million reduction in the adjusted taxable value (comparable), the millage rollback rate was actually an increase. That reflects an increase to operating ad valorem tax rate from 3.8359 mils to 3.9873 mils, and an increase of the voter-approved debt from .2319 mils to .2336 mils. The City has held the millage at the rollback rate for the past five years and has lowered or maintained the property tax rates (including the roll back increased rate) for the past fourteen years.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
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(Continued)

- One of the more significant activities during the year was the completion of several projects to improve the Marina under the BIGP and FIND grant programs. The \$6 million project included dock rehab, and installation of additional new docks, renovating the bathhouse and the construction of a new marine welcome center. Additional dredging was also completed during the year.
- Work was completed on the \$1.24 million expansion to the Atlantic Recreation Center. This center now has an aquatics multiuse facility including a classroom, a teen/multipurpose building and a pavilion at the Greenway entrance. The project was funded using impact fees.
- Both, the Fernandina Beach Police Benevolent Association and International Association of Firefighters union contracts were successfully negotiated/extended for a three year term.
- The Fire-Rescue department paid \$14,000 for a 1999 Medical Rescue Unit, replacing the spare unit that was no longer serviceable and spent additional funds to rehabilitate and outfit the unit.
- The Fire-Rescue department negotiated a contract with a billing management company for EMS services charges. This service was previously handled by Nassau County. The change resulted in increased collections and allows the City more control in handling EMS billing.
- The Human Resources department successfully launched the kronos HR module and a time keeping module. The Payroll module will be in service at the end of the first quarter in 2010.
- A professional Position Classification and Pay Plan was completed and was subsequently adopted during the year.
- An examination of the City's Charter through the collective efforts of a citizen Charter Review Committee, the City's Clerk, Attorney, Manager, and Commission yielded recommendations for amendments, a process to prioritize items and prepare items ready for referendum elections.
- The City retained a consultant to develop a waterfront master plan, which was subsequently adopted by the City Commission. The plan provides a detailed roadmap to revitalize the Front Street area, including the City owned waterfront parking lots. The City initiated improvements to the waterfront by completing sun shelters, landscaping, irrigation, grading and adding gravel to the parking area.
- The City retained consultants to develop a stormwater master plan. The plan will provide funding alternatives as well as help prioritize stormwater projects in the City.
- The Airport completed Taxiway C Extension paid for with a grant from the FAA. Infrastructure improvements in the east area are well underway using funding from the FAA and FDOT. Additionally, two new large private built bulk hangars (100x100 and 60x70) are underway in the east area. FAA approved a requested airport identifier change from 55J to FHB.
- Improvements to the sewer system include relining the gravity system, manhole rehabilitation, and lift station improvements. In fiscal year 2008 work began on a 2.5 MGD treatment train. Through the end of 2009, \$2.3 million has been spent on the new treatment train. The entire project is expected to be completed in the next fiscal year at a cost of approximately \$3.5 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2009
(Continued)

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The Government-wide Statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business, in that all governmental and business-type activities are consolidated into columns which add up to a total for the primary government.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and inter-governmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The Governmental Activities reflects the City's basic services, including general government, police, fire, protective inspections, public works, cultural and recreation. Property taxes, utility services taxes, gas taxes, and sales taxes, along with the City's utility tax transfers, finance the majority of these services. The Business-type Activities reflect private sector-type operations, including water, wastewater, solid waste management, airport, marina and golf course, where the fee for service typically covers all or most of the cost of operation including depreciation.

The government-wide financial statements can be found on pages 13 and 14.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2009
(Continued)

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, utility fund, community redevelopment fund, and capital improvement fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for all of its governmental funds. A budgetary comparison statement has been provided for the major governmental funds to demonstrate compliance with this budget. The budgetary comparisons can be found on pages 50 through 52.

The basic governmental fund financial statements can be found on pages 15 and 16 of this report.

Proprietary funds

The City maintains two different types of proprietary funds, or enterprise funds, and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its golf course, airport, sanitation, sewer, water, storm water, and marina operations. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its vehicle maintenance activities, utility billing and utility administration. Because these services predominantly benefit business type rather than governmental functions, they have been included with business type activities in the government-wide financial statements.

Proprietary funds reporting provides the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the golf course, airport, sanitation, sewer, water, storm water, and marina operations, all of which are considered to be major funds of the City. Conversely, the internal service funds are presented in a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 18 through 23 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2009
(Continued)

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The fiduciary fund financial statements can be found on pages 24 and 25 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 through 49 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget compliance.

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	FYE 2009	FYE 2008	FYE 2009	FYE 2008	FYE 2009	FYE 2008
Current and Other Assets	\$ 12,322,107	\$ 14,346,293	\$ 10,728,364	\$ 13,739,258	\$ 23,050,471	\$ 28,085,551
Capital Assets	31,393,945	31,291,079	59,928,621	56,155,785	91,322,566	87,446,864
Total Assets	43,716,052	45,637,372	70,656,985	69,895,043	114,373,037	115,532,415
Current Liabilities	1,114,366	906,772	1,028,107	1,002,060	2,142,473	1,908,832
Non-Current Liabilities	7,247,493	7,527,103	49,232,448	49,401,677	56,479,941	56,928,780
Total Liabilities	8,361,859	8,433,875	50,260,555	50,403,737	58,622,414	58,837,612
Net Assets:						
Investments in Capital Assets	25,218,041	24,674,306	14,552,916	13,099,286	39,770,957	37,773,592
Restricted	3,200,314	4,993,874	913,264	294,527	4,113,578	5,288,401
Unrestricted	6,935,838	7,535,317	4,930,250	6,097,493	11,866,088	13,632,810
Total Net Assets	\$ 35,354,193	\$ 37,203,497	\$ 20,396,430	\$ 19,491,306	\$ 55,750,623	\$ 56,694,803

The largest portion of the City's net assets or \$39,770,957 reflects its investment in capital assets (e.g., land, buildings, and equipment). The City uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. An additional portion of the City's net assets, \$3,413,578 represents resources that are subject to external restrictions on how they may be used (restricted assets).

The Unrestricted Net Asset balance, \$11,866,088 is intended to be a corporate-style measurement of well being (or a bottom line) for the City and its related governmental and business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
SEPTEMBER 30, 2009
(Continued)

Statement of Activities

The following schedule presents the revenues and expenses for the current and prior years:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	FYE 2009	FYE 2008	FYE 2009	FYE 2008	FYE 2009	FYE 2008
REVENUES						
Program Revenues:						
Charges for Services	\$ 1,588,224	\$ 2,486,808	\$ 13,303,450	\$ 12,770,805	\$ 14,891,674	\$ 15,257,613
Operating Grants and Contrib.	310,573	3,189,106	11,589	382,261	322,162	3,571,367
Capital Grants and Contrib.	164,759	2,162,748	1,917,898	1,536,448	2,082,657	3,699,196
General Revenues:						
Property Taxes	8,092,822	7,746,102			8,092,822	7,746,102
Franchise and Utility Taxes	2,832,445	2,483,224			2,832,445	2,483,224
Sales and Use Taxes	1,938,064	2,141,549			1,938,064	2,141,549
State Revenue Sharing	289,194	297,081			289,194	297,081
Investment Earnings	109,706	474,273	110,085	439,322	219,791	913,595
Other	213,463	206,274	71,925	213,988	285,388	420,262
Total Revenues	15,539,250	21,187,165	15,414,947	15,342,824	30,954,197	36,529,989
EXPENSES						
Program Activities						
Governmental Activities:						
General Government	3,144,178	2,804,178			3,144,178	2,804,178
Public Safety	8,572,853	8,262,263			8,572,853	8,262,263
Transportation	2,399,652	2,375,716			2,399,652	2,375,716
Economic Environment	298,505	84,294			298,505	84,294
Human Services	103,264	82,512			103,264	82,512
Culture and Recreation	2,845,636	7,006,660			2,845,636	7,006,660
Interest	295,057	316,717			295,057	316,717
Business-type Activities:						
Golf			1,771,520	1,726,022	1,771,520	1,726,022
Airport			1,209,324	1,236,176	1,209,324	1,236,176
Sanitation			1,966,716	1,624,143	1,966,716	1,624,143
Sewer			3,620,649	3,307,766	3,620,649	3,307,766
Water			3,620,716	4,080,514	3,620,716	4,080,514
Stormwater			74,398	65,297	74,398	65,297
Marina			1,975,909	2,316,495	1,975,909	2,316,495
Total Expenses	17,659,145	20,932,340	14,239,232	14,356,413	31,898,377	35,288,753
Transfers	270,591	163,510	(270,591)	(163,510)		
Increase/(Decrease in Net Assets	\$ (1,849,304)	\$ 418,335	\$ 905,124	\$ 822,901	\$ (944,180)	\$ 1,241,236

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
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(Continued)

Normal Impacts

There are nine basic (normal) impacts on revenues and expenses as reflected below.

Revenues

Economic Condition—which can reflect a declining, stable or growing economic environment and has a substantial impact on property, sales, gas and other tax revenue as well as public spending habits for building permits, elective user fees and volumes of consumption.

Increase/Decrease in Commission approved rates—While statutes set certain tax rates, the City Commission has significant authority to impose and periodically increase/decrease rates (sanitation, recycling, water, wastewater, stormwater, permitting, recreation user fees, slip rental, and facility rental fees, etc.)

Changing Patterns in Intergovernmental and Grant Revenue (both recurring and non-recurring)—certain recurring revenues (state revenue sharing, block grants, etc.) may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year-to-year comparisons.

Contribution from the Proprietary Fund—the City owns and operates various utility systems and provides administrative and support services for the utilities. In return, the City receives payments from the utilities. Therefore, the ongoing competitiveness and vitality of the utilities are important to the City's well being.

Market Impacts on Investment Income—due to varying maturities on the City's investments and the varying nature of the market in general, City investment income may fluctuate from year to year.

Expenses

Introduction of New Programs—within the functional expense categories (General Government, Public Safety – Police and Fire, Public Services, Cultural and Recreation, etc.) individual programs may be added or deleted to meet changing community needs.

Increase/Decrease in Authorized Personnel—changes in service demand may cause the Commission to increase/decrease authorized staffing.

Salary Increases (cost of living, merit and market adjustment)—the ability to attract and retain human and intellectual resources requires the City to strive to approach a competitive salary range position in the marketplace.

Inflation—while overall inflation appears to be reasonably modest, the City is a major consumer of certain commodities such as chemicals and supplies, fuel and parts. Some functions may experience unusual commodity specific increases (for example fuel prices).

MANAGEMENT'S DISCUSSION AND ANALYSIS
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Current Year Impacts

Revenues

The local economy slowed down. This was illustrated in the decline in Franchise Fees and Utility Taxes as well as a decline in Sales Tax revenue. Meanwhile, the City's property tax revenue was \$346,720 or 4.5% more than 2008. The City's taxable value decreased more than \$77 million on a comparable basis. In 2009, the City went to the rollback rate. The City has lowered or maintained the millage rate for the last fourteen years.

Total City revenues decreased approximately \$5,575,800 compared to fiscal year 2008 due to the grant revenue related to beach renourishment, \$3,151,822, and infrastructure developer contributions totaling \$2,786,407 in 2008.

Expenses

Governmental activities expenses decreased \$3,273,195, or 15.6%. However, once the \$4.3 million related to beach renourishment is excluded from the 2008 figures, Governmental expenses increased \$1,016,667 or 5.8%. The increases were in the General Government and Public Safety sectors.

THE CITY FUNDS

Governmental Funds

As of year-end, the Governmental Funds (as presented on the balance sheet) reported a combined fund balance of \$11,204,191 which is a 15.7% decrease over the previous year. Several of the Governmental Funds are capital expenditure oriented and, therefore, may include capital expenditures (which are reflected in the current financial resource – based Fund Financial Statements) as a spending of a portion of available net assets. The General Fund balance experienced a \$515,999 decrease in Unreserved Fund Balance. The Capital Improvement Fund's Fund Balance decreased \$401,377 and Other Governmental Funds' Fund Balance, which includes the Capital Expansion Fund (Impact fees), decreased \$1,138,699. The Utility Tax Fund transfers to the General Fund comprise the majority of the General Fund transfers in. Additional transfers in come from various Enterprise Funds. The largest General Fund transfer out was for debt service of \$474,000. Other transfers out include a transfer of \$25,000 to the Cemetery Fund and \$50,000 to the Stormwater Fund.

Business Type Funds

The Enterprise Funds, which include the City's Golf Fund, Airport Fund, Sanitation Fund, Water Fund, Sewer Fund, Storm water Fund, and Marina show a combined operating income of \$1,126,409 and income of \$1,185,907 before transfers. Operating expenses increased by \$275,487 to \$12,177,041 or 2.3%. The total net assets are \$20,121,532 which is \$915,316 higher than the net assets at the beginning of the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF FERNANDINA BEACH, FLORIDA
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(Continued)

Budgetary Highlights

The following is a brief review of the significant budgeting changes from the original budget to the final budget:

- The General Fund's General Government sector needed \$122,841 in additional expenditures for budgetary amendments relating to happenings during the year. Some of these circumstances included: \$75,000 for lobbying services in the City Commission's budget and 15,400 for unbudgeted unemployment in Facilities Maintenance.
- The Public Safety sector increased \$60,700 for unemployment in Community Development; \$17,000 in Fire Rescue for salary costs related to increasing the lifeguard coverage at the beaches, and an additional \$25,000 for Fire Rescue salary and overtime expenditures.
- The Transportation sector added \$17,882 to the original budget due to higher than anticipated utility costs.
- The Culture and Recreation budget expenditures were increased by \$30,500 to cover the higher than budgeted costs for utilities (\$13,500) and unanticipated Peck Center tenant build out costs (\$13,500).
- All other transfers were within departmental groups and did not have a significant effect on the overall budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's net investment in capital assets for the governmental activities increased \$102,866 or .3%. Business type activities experienced a 6.7% increase or \$3,772,836 in net capital assets.

Additional information on the Capital Assets is presented in detail on pages 35 and 36 of the notes.

Long Term Debt

At the end of the fiscal year, the City had total long-term debt outstanding of \$56,479,941. Of this amount, \$4,230,618 is general obligation debt, \$1,742,846 is comprised of governmental revenue notes payable, \$43,122,389 is due on the business related revenue bonds and notes, and \$5,877,750 is futures payable related to the FPU utility purchase. The balance is comprised of various other long-term obligations. The City's outstanding debt decreased \$448,839. New debt, \$1,300,000 for Marina improvements was the only new debt issued in the year. Additional information on long-term debt can be found in note 4 on pages 38 through 42 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
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Economic Factors

The State of Florida, by constitution, does not have a state personal income tax and therefore the State operates chiefly using sales, gasoline and corporate income taxes. Local governments (cities, counties and school boards) primarily rely on property and a limited array of permitted other taxes (sales, gasoline, utilities services, etc.) and fees (franchise, business licenses, etc.) for their government activities. There are a limited number of state-shared revenues and recurring and non-recurring (one-time) grants from both the state and federal governments.

For the business-type and certain governmental activities (permitting, recreational programs, etc.) the user (of services) pays a related fee (or charge) associated therewith.

The City strongly encourages economic development. Construction activity has slowed as the economic outlook in general has declined. Property values decreased slightly throughout the City as noted in the assessed valuation numbers. Sales tax revenue declined for the second straight year.

On January 29, 2008, the Florida electorate approved an amendment to the Florida Constitution relative to property taxation. This amendment (referred to as Amendment 1) was placed on the ballot by the Florida Legislature at a special session held in October 2007. With respect to homestead property, Amendment 1 increases the current \$25,000 homestead exemption by another \$25,000 (for property values between \$50,000 - \$75,000), except for school district taxes. Since the new \$25,000 homestead exemption does not apply to school district taxes, this effectively amounts to a \$15,000 increase to the existing homestead exemption, resulting in an estimated annual savings of \$240 for an average homeowner. Amendment 1 also allows property owners to transfer (make portable) up to \$500,000 of their Save Our Homes benefits to their next homestead when they move. Save Our Homes became effective in 1995 and limits (caps) the annual increase in assessed value for homestead property to three percent (3%) or the percentage change in the Consumer Price Index, whichever is less.

With respect to non-homestead property, Amendment 1 limits (caps) the annual increase in assessed value for non-homestead property (businesses, industrial property, rental property, second homes, etc.) to ten percent (10%), except for school district taxes. The Amendment also provides a \$25,000 exemption for tangible personal property.

Amendment 1 became effective on October 1, 2008, and the ten percent (10%) assessment cap on non-homestead property became effective on January 1, 2009.

Based on information received from the Nassau Property Appraiser's Office in 2008, the estimated annual loss of property tax revenues for our city from the additional homestead exemption and the \$25,000 exemption for tangible personal property was approximately \$360,000. There is no accurate way to determine the impact of the portability and assessment cap on non-homestead property provisions in terms of potential loss of property tax revenues. However, the employment of the roll back rate calculations should mean that property taxes, in dollars, should hold.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have any questions about the report or need additional financial information, contact the City's Controller at City Hall at 204 Ash Street, Fernandina Beach, Florida 32034, (904) 277-7311.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and Investments	\$ 8,590,261	\$ 4,270,867	\$ 12,861,128
Cash with Paying Agent	101,515	0	101,515
Receivables, Net	772,093	1,110,033	1,882,126
Due from Other Governments	226,281	1,286,731	1,513,012
Internal Balances	1,909,745	(1,909,745)	0
Inventories	46,474	77,492	123,966
Restricted Assets:			
Cash and Cash Equivalents	0	5,392,142	5,392,142
Capital Assets, Net	31,393,945	59,928,621	91,322,566
Prepays	614,172	0	614,172
Bond Issue Costs	61,566	500,844	562,410
Total Assets	<u>43,716,052</u>	<u>70,656,985</u>	<u>114,373,037</u>
Liabilities			
Accounts Payable and Accrued Expenses	1,012,851	482,224	1,495,075
Unearned Revenue	0	11,675	11,675
Accrued Interest	101,515	219,280	320,795
Deposits	0	314,928	314,928
Noncurrent Liabilities:			
Due Within One Year	1,363,340	7,490,847	8,854,187
Due in More Than One Year	5,884,153	41,741,601	47,625,754
Total Liabilities	<u>8,361,859</u>	<u>50,260,555</u>	<u>58,622,414</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	25,218,041	14,552,916	39,770,957
Restricted for:			
Public Safety	75,785	0	75,785
Debt Service	93,446	0	93,446
Community Development	356,859	0	356,859
Capital Improvements	2,017,618	913,264	2,930,882
Cemetery	656,606	0	656,606
Unrestricted	6,935,838	4,930,250	11,866,088
Total Net Assets	<u>\$ 35,354,193</u>	<u>\$ 20,396,430</u>	<u>\$ 55,750,623</u>

See accompanying notes.

STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
General Government	\$ 3,144,178	\$ 12,378	\$ 77,834	\$ 0	\$ (3,053,966)	\$ 0	\$ (3,053,966)
Public Safety	8,572,853	862,183	57,336	154,959	(7,498,375)	0	(7,498,375)
Transportation	2,399,652	0	0	0	(2,399,652)	0	(2,399,652)
Economic Environment	298,505	0	0	0	(298,505)	0	(298,505)
Human Services	103,264	0	0	0	(103,264)	0	(103,264)
Culture and Recreation	2,845,636	713,663	175,403	9,800	(1,946,770)	0	(1,946,770)
Interest on Long-term Debt	295,057	0	0	0	(295,057)	0	(295,057)
Total Governmental Activities	17,659,145	1,588,224	310,573	164,759	(15,595,589)	0	(15,595,589)
Business-type Activities							
Golf	1,771,520	1,545,314	9,889	0	0	(216,317)	(216,317)
Airport	1,209,324	1,155,528	0	758,134	0	704,338	704,338
Sanitation	1,966,716	2,002,180	1,700	0	0	37,164	37,164
Sewer	3,620,649	3,842,279	0	0	0	221,630	221,630
Water	3,620,716	3,356,156	0	0	0	(264,560)	(264,560)
Stormwater	74,398	0	0	0	0	(74,398)	(74,398)
Marina	1,975,909	1,401,993	0	1,159,764	0	585,848	585,848
Total Business-type Activities	14,239,232	13,303,450	11,589	1,917,898	0	993,705	993,705
Total Government Activities	\$ 31,898,377	\$ 14,891,674	\$ 322,162	\$ 2,082,657	(15,595,589)	993,705	(14,601,884)
General Revenues							
Property Taxes					8,092,822	0	8,092,822
Franchise and Utility Taxes					2,832,445	0	2,832,445
Half-cent Sales Tax					581,700	0	581,700
State Revenue Sharing					289,194	0	289,194
Discretionary Sales Surtax					1,356,364	0	1,356,364
Rent and Other					213,463	71,925	285,388
Investment Earnings					109,706	110,085	219,791
Transfers					270,591	(270,591)	0
Total General Revenues and Transfers					13,746,285	(88,581)	13,657,704
Change in Net Assets					(1,849,304)	905,124	(944,180)
Net Assets, Beginning of Year					37,203,497	19,491,306	56,694,803
Net Assets, End of Year					\$ 35,354,193	\$ 20,396,430	\$ 55,750,623

See accompanying notes.

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA**

	General Fund	Utility Tax Fund	Community Redevelopment Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and Investments	\$ 4,819,634	\$ 535,912	\$ 208,930	\$ 1,687,637	\$ 1,346,231	\$ 8,598,344
Cash with Paying Agent	0	0	0	0	101,515	101,515
Receivables:						
Accounts, Net of Allowance for Uncollectible Accounts	680,717	75,840	0	0	0	756,557
Assessments Receivable	0	0	0	15,536	0	15,536
Due from Other Funds	1,935,254	0	0	0	0	1,935,254
Due from Other Governments	210,557	0	0	15,724	0	226,281
Other Assets	610,172	0	0	4,000	0	614,172
Total Assets	8,256,334	611,752	208,930	1,722,897	1,447,746	12,247,659
Liabilities and Fund Balances						
Liabilities						
Accounts Payable and						
Accrued Expenses	764,637	0	12,355	39,794	161,596	978,382
Due to Other Funds	0	0	0	0	1,431	1,431
Deferred Revenue	54,153	0	0	9,502	0	63,655
Total Liabilities	818,790	0	12,355	49,296	163,027	1,043,468
Fund Balances						
Reserved for:						
Prepays	610,172	0	0	4,000	0	614,172
Public Safety	49,419	0	0	0	26,366	75,785
Debt Service	0	0	0	0	93,446	93,446
Community Development	0	0	196,575	0	160,284	356,859
Capital Improvements	0	0	0	1,669,601	348,017	2,017,618
Cemetery	0	0	0	0	656,606	656,606
Unreserved:						
General Fund	6,777,953	0	0	0	0	6,777,953
Special Revenue Funds	0	611,752	0	0	0	611,752
Total Fund Balances	7,437,544	611,752	196,575	1,673,601	1,284,719	11,204,191
Total Liabilities and Fund Balances	\$ 8,256,334	\$ 611,752	\$ 208,930	\$ 1,722,897	\$ 1,447,746	

**Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	30,948,029
Some revenues have been deferred on the balance sheet because they were not measurable and available at year-end.	63,655
Long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.	(7,251,780)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of internal service funds are reported with governmental activities.	390,098
Net Assets of Governmental Activities	\$ 35,354,193

See accompanying notes.

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA**

	General Fund	Utility Tax Fund	Community Redevelopment Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes, Licenses and Permits	\$ 11,072,710	\$ 1,675,690	\$ 23,581	\$ 0	\$ 1,890	\$ 12,773,871
Intergovernmental	930,539	0	0	497,013	0	1,427,552
Fines and Forfeitures	78,966	0	0	0	0	78,966
Charges for Services	881,149	0	0	0	49,158	930,307
Other	273,507	(1,263)	730	639	92,457	366,070
Total Revenues	13,236,871	1,674,427	24,311	497,652	143,505	15,576,766
Expenditures						
General Government	3,063,174	0	0	2,500	40,772	3,106,446
Public Safety	8,203,159	0	0	0	4,521	8,207,680
Transportation	1,078,207	0	0	340,097	0	1,418,304
Economic Environment	56,656	0	241,849	0	0	298,505
Human Services	103,264	0	0	0	0	103,264
Culture and Recreation	2,289,804	0	0	519,506	1,188,101	3,997,411
Debt Service:						
Principal	167,725	0	0	85,072	260,000	512,797
Interest	59,482	0	0	25,714	213,950	299,146
(Total Expenditures)	(15,021,471)	0	(241,849)	(972,889)	(1,707,344)	(17,943,553)
(Deficiency) Excess of Revenues (Under) Over Expenditures	(1,784,600)	1,674,427	(217,538)	(475,237)	(1,563,839)	(2,366,787)
Other Financing Sources (Uses)						
Transfers in	2,328,091	0	0	73,860	499,000	2,900,951
Transfers (out)	(549,000)	(2,000,000)	0	0	(73,860)	(2,622,860)
Total Other Financing Sources (Uses)	1,779,091	(2,000,000)	0	73,860	425,140	278,091
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing Uses	(5,509)	(325,573)	(217,538)	(401,377)	(1,138,699)	(2,088,696)
Fund Balances, Beginning of Year	7,443,053	937,325	414,113	2,074,978	2,423,418	13,292,887
Fund Balances, End of Year	\$ 7,437,544	\$ 611,752	\$ 196,575	\$ 1,673,601	\$ 1,284,719	\$ 11,204,191

See accompanying notes.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA**

**Amounts Reported for Governmental Activities in the Statement of Activities
are Different Because:**

Net Change in Fund Balance - Total Governmental Funds \$ (2,088,696)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Expenditures for Capital Assets	\$ 2,302,120	
(Current Year Depreciation)	<u>(2,197,364)</u>	104,756

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the government funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

Repayments of Principal	512,797	
Amortization of Discount on Bonds	(1,371)	
Amortization of Bond Issue Costs	(8,993)	
Accrued Interest Payable	<u>5,460</u>	507,893

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated Absences		(45,139)
Other Postemployment Benefits		(181,000)

Some revenues have been deferred on the balance sheet because they were not available at year-end.		(81,326)
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Internal service funds are used by management to charge the cost of certain activities, such as the costs of the central garage, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		<u>(65,792)</u>
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Change in Net Assets of Governmental Activities \$ (1,849,304)

See accompanying notes.

**STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2009
 CITY OF FERNANDINA BEACH, FLORIDA**

Business-type Activities - Enterprise Funds

	Golf Course Fund	Airport Fund	Sanitation Fund	Sewer Fund	Water Fund	Stormwater Fund	Marina Fund	Total	Internal Services Fund
Assets									
Current Assets:									
Cash and Investments	\$ 1,226	\$ 6,060	\$ 298,714	\$ 355,316	\$ 3,283,816	\$ 28,361	\$ 111,720	\$ 4,085,213	\$ 177,571
Receivables:									
Accounts, Net of Allowance for Uncollectible Accounts	0	34,381	221,660	434,055	390,246	0	18,535	1,098,877	11,156
Due from Other Governments	0	86,418	0	0	0	0	1,200,313	1,286,731	0
Inventories	0	0	0	22,752	28,442	0	26,298	77,492	46,474
Total Current Assets	<u>1,226</u>	<u>126,859</u>	<u>520,374</u>	<u>812,123</u>	<u>3,702,504</u>	<u>28,361</u>	<u>1,356,866</u>	<u>6,548,313</u>	<u>235,201</u>
Noncurrent Assets:									
Restricted Assets:									
Cash and Investments	0	481,276	62,754	3,630,811	1,217,301	0	0	5,392,142	0
Fixed Assets, Net, Where Applicable of Accumulated Depreciation	2,810,976	12,728,034	0	17,027,663	21,199,407	0	6,064,968	59,831,048	543,489
Other Assets	3,959	0	0	159,252	337,633	0	0	500,844	0
Total Noncurrent Assets	<u>2,814,935</u>	<u>13,209,310</u>	<u>62,754</u>	<u>20,817,726</u>	<u>22,754,341</u>	<u>0</u>	<u>6,064,968</u>	<u>65,724,034</u>	<u>543,489</u>
Total Assets	<u><u>\$ 2,816,161</u></u>	<u><u>\$ 13,336,169</u></u>	<u><u>\$ 583,128</u></u>	<u><u>\$ 21,629,849</u></u>	<u><u>\$ 26,456,845</u></u>	<u><u>\$ 28,361</u></u>	<u><u>\$ 7,421,834</u></u>	<u><u>\$ 72,272,347</u></u>	<u><u>\$ 778,690</u></u>

See accompanying notes.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA
(Concluded)

	Business-type Activities - Enterprise Funds							Total	Internal Services Fund
	Golf Course Fund	Airport Fund	Sanitation Fund	Sewer Fund	Water Fund	Stormwater Fund	Marina Fund		
Liabilities									
Current Liabilities:									
Accounts Payable and Accrued Expenses									
	\$ 34,692	\$ 48,796	\$ 149,674	\$ 78,327	\$ 42,994	\$ 109	\$ 113,592	\$ 468,184	\$ 48,510
Capital Leases Payable, Current Portion	18,281	0	0	0	0	0	0	18,281	0
Futures Payable, Current Portion	0	0	0	0	5,877,750	0	0	5,877,750	0
Payable from Restricted Assets:									
Current Portion of Revenue Bonds Payable									
	154,952	82,712	0	520,635	319,365	0	360,024	1,437,688	0
Accrued Interest on Bonds Payable	4,566	9,282	0	89,431	81,025	0	34,976	219,280	0
Customer Deposits	0	0	62,754	131,617	120,557	0	0	314,928	0
Due to Other Funds	135,000	739,745	0	0	0	0	1,035,000	1,909,745	24,078
Unearned Revenue	0	11,675	0	0	0	0	0	11,675	0
Compensated Absences	63,958	1,169	0	70,413	7,069	0	9,074	151,683	41,107
Total Current Liabilities	411,449	893,379	212,428	890,423	6,448,760	109	1,552,666	10,409,214	113,695
Noncurrent Liabilities:									
Revenue Bonds Payable, Long-term Portion									
	1,401,105	913,953	0	13,484,011	20,957,052	0	4,928,580	41,684,701	0
Other Postemployment Benefits	15,200	1,200	0	19,600	12,700	1,200	7,000	56,900	0
Total Noncurrent Liabilities	1,416,305	915,153	0	13,503,611	20,969,752	1,200	4,935,580	41,741,601	0
Total Liabilities	1,827,754	1,808,532	212,428	14,394,034	27,418,512	1,309	6,488,246	52,150,815	113,695
Net Assets									
Investment in Capital Assets, Net of Related Debt									
	1,236,638	12,201,840	0	6,091,475	(5,850,974)	0	776,364	14,455,343	543,489
Restricted	0	0	0	27,947	885,317	0	0	913,264	0
Unrestricted	(248,231)	(674,203)	370,700	1,116,393	4,003,990	27,052	157,224	4,752,925	121,506
Total Net Assets	\$ 988,407	\$ 11,527,637	\$ 370,700	\$ 7,235,815	\$ (961,667)	\$ 27,052	\$ 933,588	\$ 20,121,532	\$ 664,995

See accompanying notes.

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA**

Business-type Activities - Enterprise Funds

	Golf Course Fund	Airport Fund	Sanitation Fund	Sewer Fund	Water Fund	Stormwater Fund	Marina Fund	Total	Internal Services Fund
Operating Revenues									
Charges for Services	\$ 1,545,314	\$ 0	\$ 2,002,180	\$ 3,642,733	\$ 3,124,041	\$ 0	\$ 0	\$ 10,314,268	\$ 1,238,244
Fees, Rentals and Other	0	1,155,528	0	199,546	232,115	0	1,401,993	2,989,182	6,319
Total Operating Revenues	1,545,314	1,155,528	2,002,180	3,842,279	3,356,156	0	1,401,993	13,303,450	1,244,563
Operating Expenses									
Personal Services	987,915	90,227	0	912,911	697,412	31,613	356,150	3,076,228	617,243
Materials, Supplies and Other	455,251	256,455	1,966,716	1,072,093	929,479	42,785	1,235,203	5,957,982	704,516
Depreciation and Amortization	265,055	802,523	0	1,011,615	864,475	0	199,163	3,142,831	35,677
(Total Operating Expenses)	(1,708,221)	(1,149,205)	(1,966,716)	(2,996,619)	(2,491,366)	(74,398)	(1,790,516)	(12,177,041)	(1,357,436)
Operating (Loss) Income	(162,907)	6,323	35,464	845,660	864,790	(74,398)	(388,523)	1,126,409	(112,873)
Nonoperating Revenues (Expense)									
Interest Income	315	661	330	77,686	30,413	101	0	109,506	592
Intergovernmental Revenue	9,889	0	1,700	0	0	0	0	11,589	0
Other Nonoperating Income	15,287	0	12,742	14,110	29,261	0	525	71,925	43,798
Interest Expense	(63,299)	(60,119)	0	(618,644)	(1,123,965)	0	(185,393)	(2,051,420)	0
Total Nonoperating Revenues (Expense)	(37,808)	(59,458)	14,772	(526,848)	(1,064,291)	101	(184,868)	(1,858,400)	44,390
(Loss) Income Before Contributions and Operating Transfers	(200,715)	(53,135)	50,236	318,812	(199,501)	(74,297)	(573,391)	(731,991)	(68,483)
Capital Grants and Contributions	0	758,134	0	0	0	0	1,159,764	1,917,898	0
Transfers									
Transfers in	0	0	0	140,800	0	50,000	0	190,800	0
Transfers (out)	(24,000)	0	(36,000)	(86,864)	(314,527)	0	0	(461,391)	(7,500)
Total Transfers	(24,000)	0	(36,000)	53,936	(314,527)	50,000	0	(270,591)	(7,500)
Net (Loss) Income	(224,715)	704,999	14,236	372,748	(514,028)	(24,297)	586,373	915,316	(75,983)
Net Assets, Beginning of Year	1,213,122	10,822,638	356,464	6,863,067	(447,639)	51,349	347,215	19,206,216	740,978
Net Assets, End of Year	\$ 988,407	\$ 11,527,637	\$ 370,700	\$ 7,235,815	\$ (961,667)	\$ 27,052	\$ 933,588	\$ 20,121,532	\$ 664,995

See accompanying notes.

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009
 CITY OF FERNANDINA BEACH, FLORIDA**

Business-type Activities - Enterprise Funds

	Golf Course Fund	Airport Fund	Sanitation Fund	Sewer Fund	Water Fund	Stormwater Fund	Marina Fund	Total	Internal Services Fund
Cash Flows from Operating Activities									
Cash Received from Customers and Others	\$ 1,552,439	\$ 1,125,625	\$ 2,012,273	\$ 3,804,907	\$ 3,319,758	\$ 0	\$ 275,401	\$ 12,090,403	\$ 1,242,336
Cash Paid to Suppliers	(440,000)	(275,999)	(1,971,354)	(1,038,397)	(947,027)	(43,214)	(1,152,769)	(5,868,760)	(688,300)
Cash Paid to Employees	(1,002,383)	(90,552)	0	(977,310)	(693,446)	(34,360)	(353,701)	(3,151,752)	(610,331)
Net Cash Provided by (Used in) Operating Activities	110,056	759,074	40,919	1,789,200	1,679,285	(77,574)	(1,231,069)	3,069,891	(56,295)
Cash Flows from Noncapital Financing Activities									
Due to/from Other Funds	135,000	(146,948)	0	0	0	0	1,035,000	1,023,052	14,000
Nonoperating Revenues (Expenses)	14,987	0	12,742	1,987	28,661	0	525	58,902	11,646
Operating Transfers in	0	0	0	140,800	0	50,000	0	190,800	(6,621)
Operating Transfers (out)	(24,000)	0	(36,000)	(86,864)	(314,527)	0	0	(461,391)	(7,500)
Net Cash Provided by (Used in) Noncapital Financing Activities	125,987	(146,948)	(23,258)	55,923	(285,866)	50,000	1,035,525	811,363	11,525
Cash Flows from Capital and Related Financing Activities									
Principal Paid on Revenue Bonds	(149,574)	(82,712)	0	(485,943)	(309,174)	0	(285,709)	(1,313,112)	0
Proceeds from the Sale of Capital Assets	300	0	0	12,123	600	0	0	13,023	32,152
Debt Proceeds	0	0	0	0	0	0	1,300,000	1,300,000	0
Futures Paid	0	0	0	0	(252,000)	0	0	(252,000)	0
Principal Paid on Capital Leases	(36,902)	0	0	0	0	0	0	(36,902)	0
Acquisition and Construction of Capital Assets	(68,031)	(853,886)	0	(3,758,279)	(154,815)	0	(1,936,547)	(6,771,558)	(119,793)
Interest Paid	(63,800)	(60,914)	0	(639,260)	(981,570)	0	(163,380)	(1,908,924)	0
Capital Grants	9,889	850,870	12,350	0	0	0	1,159,764	2,032,873	0
Net Cash Provided by (Used in) Capital and Related Financing Activities	(308,118)	(146,642)	12,350	(4,871,359)	(1,696,959)	0	74,128	(6,936,600)	(87,641)

See accompanying notes.

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009
 CITY OF FERNANDINA BEACH, FLORIDA
 (Continued)**

Business-type Activities - Enterprise Funds

	Golf Course Fund	Airport Fund	Sanitation Fund	Sewer Fund	Water Fund	Stormwater Fund	Marina Fund	Total	Internal Services Fund
Cash Flows from Investing Activities									
Interest and Other Nonoperating Revenues	\$ 315	\$ 661	\$ 330	\$ 77,686	\$ 30,413	\$ 101	\$ 0	\$ 109,506	\$ 592
Net Cash Provided by (Used in) Investing Activities	<u>315</u>	<u>661</u>	<u>330</u>	<u>77,686</u>	<u>30,413</u>	<u>101</u>	<u>0</u>	<u>109,506</u>	<u>592</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(71,760)	466,145	30,341	(2,948,550)	(273,127)	(27,473)	(121,416)	(2,945,840)	(131,819)
Cash and Cash Equivalents, Beginning of Year	<u>72,986</u>	<u>21,191</u>	<u>331,127</u>	<u>6,934,677</u>	<u>4,774,244</u>	<u>55,834</u>	<u>233,136</u>	<u>12,423,195</u>	<u>309,390</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,226</u>	<u>\$ 487,336</u>	<u>\$ 361,468</u>	<u>\$ 3,986,127</u>	<u>\$ 4,501,117</u>	<u>\$ 28,361</u>	<u>\$ 111,720</u>	<u>\$ 9,477,355</u>	<u>\$ 177,571</u>
<u>Included on the Accompanying Balance Sheet Under the Following Captions</u>									
Current Assets:									
Cash and Investments	\$ 1,226	\$ 6,060	\$ 298,714	\$ 355,316	\$ 3,283,816	\$ 28,361	\$ 111,720	\$ 4,085,213	\$ 177,571
Restricted Assets:									
Cash and Investments	0	481,276	62,754	3,630,811	1,217,301	0	0	5,392,142	0
Total	<u>\$ 1,226</u>	<u>\$ 487,336</u>	<u>\$ 361,468</u>	<u>\$ 3,986,127</u>	<u>\$ 4,501,117</u>	<u>\$ 28,361</u>	<u>\$ 111,720</u>	<u>\$ 9,477,355</u>	<u>\$ 177,571</u>

See accompanying notes.

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009
 CITY OF FERNANDINA BEACH, FLORIDA
 (Concluded)**

Business-type Activities - Enterprise Funds

	Golf Course Fund	Airport Fund	Sanitation Fund	Sewer Fund	Water Fund	Stormwater Fund	Marina Fund	Total	Internal Services Fund
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</u>									
Operating Income (Loss)	\$ (162,907)	\$ 6,323	\$ 35,464	\$ 845,660	\$ 864,790	\$ (74,398)	\$ (388,523)	\$ 1,126,409	\$ (112,873)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:									
Depreciation and Amortization	265,055	802,522	0	1,011,615	864,475	0	199,163	3,142,830	35,677
Changes in Assets - Decrease (Increase) and Liabilities - Increase (Decrease):									
Accounts Receivable	0	(26,622)	8,786	(57,676)	(39,884)	0	7,910	(107,486)	(2,227)
Due from Other Governmental Units	7,125	0	0	0	0	0	(1,134,502)	(1,127,377)	0
Inventories	0	0	0	2,188	30,497	0	7,294	39,979	8,404
Prepaid Expenses	1,320	0	0	0	0	0	0	1,320	0
Accounts Payable and Accrued Expenses	13,931	(19,543)	(4,638)	31,508	(48,045)	(429)	75,140	47,924	7,812
Unearned Revenues	0	(3,281)	0	0	0	0	0	(3,281)	0
Customer Deposits	0	0	1,307	20,304	3,486	0	0	25,097	0
Compensated Absences	(14,468)	(325)	0	(64,399)	3,966	(2,747)	2,449	(75,524)	6,912
Total Adjustments	272,963	752,751	5,455	943,540	814,495	(3,176)	(842,546)	1,943,482	56,578
Net Cash Provided by (Used in) Operating Activities	\$ 110,056	\$ 759,074	\$ 40,919	\$ 1,789,200	\$ 1,679,285	\$ (77,574)	\$ (1,231,069)	\$ 3,069,891	\$ (56,295)

**Supplemental Disclosure of Noncash
Activities**

Capital Assets Transferred in	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,621
Amortization of Bond Issue Costs	0	0	0	9,484	20,108	0	0	29,592	0
Amortization of Bond Discount	0	0	0	0	7,007	0	0	7,007	0
Amortization of Loss on Refunding	0	0	0	0	0	0	0	0	0

See accompanying notes.

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA

	General Employees' Pension Plan	Firefighters' and Police Officers' Pension Plan
Assets		
Cash and Cash Equivalents	\$ 939,209	\$ 854,727
Interest Receivable	45,479	48,861
Investments, at Fair Value:		
U.S. Government Bonds and Bills	287,049	310,289
Federal Agency Guaranteed Securities	1,284,309	1,597,312
Corporate Bonds	1,521,441	1,755,570
Municipal Bonds	100,726	121,836
Equity Stocks	6,965,141	7,628,185
Total Investments	10,158,666	11,413,192
Total Assets	11,143,354	12,316,780
Liabilities		
Accounts Payable	0	0
Net Assets		
Held in Trust for Pension Benefits	\$ 11,143,354	\$ 12,316,780

See accompanying notes.

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA**

	General Employees' Pension Plan	Firefighters' and Police Officers' Pension Plan
Additions		
Contributions:		
State of Florida	\$ 0	\$ 273,307
Plan Members	368,471	277,753
Employer	433,812	351,589
Total Contributions	802,283	902,649
Investment Earnings:		
Interest and Dividends	328,167	375,179
Net (Decrease) in the Fair Value of Investments	(134,534)	(592,229)
Total Investment Earnings	193,633	(217,050)
Total Additions	995,916	685,599
Deductions		
Benefit Payments	779,308	1,151,834
Administrative Expense	111,134	107,111
(Total Deductions)	(890,442)	(1,258,945)
Change in Net Assets	105,474	(573,346)
Net Assets, Beginning of Year	11,037,880	12,890,126
Net Assets, End of Year	\$ 11,143,354	\$ 12,316,780

See accompanying notes.

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA**

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Fernandina Beach, Florida (the City), conform to generally accepted accounting principles for governmental entities. The following is a summary of significant accounting policies:

A. Reporting Entity

The City is a municipality governed by a Commission Manager form of Government. The City was incorporated in 1951 pursuant to Chapter 27543, Laws of Florida. The accompanying financial statements present the government only since there are no component units for which the government is considered to be financially accountable. In 2005, via Resolution 2004-71, the City established The Community Redevelopment Agency of Fernandina Beach (CRA). This entity does not satisfy the definition of a component unit because it is not legally separate from the City and the City Commission serves as the governing board. The City implemented the general provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* during 2003.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental Activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program Revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies *(Continued)*

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or as soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

- The government reports the following major governmental funds:
 - The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
 - The *utility tax fund* accounts for the collection of utility taxes and transfers to the general fund.
 - The *community redevelopment fund* accounts for the activities of the City's Community Redevelopment Agency.
 - The *capital improvement fund* accounts for the resources accumulated and major capital improvements financed with long-term general obligation debt.
- The government reports the following major proprietary funds:
 - The *golf fund* accounts for the activities of the government's golf course operations.
 - The *airport fund* accounts for the activities of the government's airport operations.
 - The *water fund* accounts for the activities of the government's water distribution operations.
 - The *sewer fund* accounts for the activities of the government's sewer collection operations.
 - The *sanitation fund* accounts for the activities of the government's sanitation operations.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Concluded)

- The government reports the following major proprietary funds: *(Concluded)*
 - The *storm water management fund* accounts for the activities of the government's storm water drainage system operations.
 - The *marina fund* accounts for the activities of the government's marina operations.
- Additionally, the government reports the following fund types:
 - *Internal service funds* account for fleet management, utility billing services, and utility administration services provided to other departments or agencies of the government on a cost reimbursement basis.
 - *Pension trust funds* account for the activities of the general employees' pension and the firefighters'/police officers' pension plans which accumulate resources for defined benefit payments to qualified employees.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's enterprise funds and of the government's internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, impact fees are restricted for capital expansion.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. For financial reporting purposes, capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. For inventory purposes, capital assets are assets with individual cost of \$750 or more. Such assets are recorded at historical costs or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, equipment, and infrastructure assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	15-30
Infrastructure	15-60
Vehicles	5
Office Equipment	10
Computer Equipment	5

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 1 - Summary of Significant Accounting Policies (Concluded)

D. Assets, Liabilities and Net Assets or Equity (Concluded)

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 - Property Tax Calendar

Property taxes are billed and collected for the City by the County Tax Collector according to Florida Statute, under the following calendar:

Lien Date	January 1
Levy Date	October 1
Due Date	November 1
Delinquency Date	April 1, of the Following Year

Note 3 - Stewardship, Compliance and Accountability

Budgetary Information

The City Charter, Sections 71 through 72, specifies the budget procedures. A brief description is as follows:

- The City Manager is responsible for preparation and submission of a proposed budget to the Commission no later than August 1. The budget includes proposed expenditures and the means to finance them.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 3 - Stewardship, Compliance and Accountability (Concluded)

Budgetary Information (Concluded)

- Public hearings are held to obtain taxpayer comments.
- On or before the last day of the fiscal year, the budget is adopted by ordinance.
- The City Manager is authorized to transfer part or all of any unencumbered appropriation balance among programs within a department, office, or agency not to exceed \$7,500. Upon written request by the City Manager, the Commission, by motion, may transfer part or all of any unencumbered appropriation balance from one department, office, or agency to another.
- Budgets are prepared in accordance with accounting principals generally accepted in the United States of America for governmental fund types.

Restatement of Beginning Net Assets

Beginning net assets of the sewer and water funds were restated for the effects of interest expense recorded in the incorrect fund in the previous year. This restatement increased beginning net assets of the water fund and decreased beginning net assets of the sewer fund by \$233,428.

These changes were recorded as direct adjustments to beginning net assets as follows:

	Sewer Fund	Water Fund
Net Assets, September 30, 2008	\$ 7,096,495	\$ (681,067)
Restatement:		
Reclassification of Interest Expense	(233,428)	233,428
Restated Net Assets, September 30, 2008	\$ 6,863,067	\$ (447,639)

In addition, cash and cash equivalents beginning of the year, totaling \$233,428, as reported in the statement of cash flows, was reclassified from the water fund to the sewer fund.

Note 4 - Detailed Notes on all Funds

A. Deposits and Investments

At year-end, the carrying amount of the City's deposits was \$8,153,725 and the bank balance was \$8,362,492. Of the bank balance, \$7,933,583 was covered by federal depository insurance or by collateral held by the City's custodial bank which is pledged to a state trust fund that provides security for amounts held in excess of FDIC coverage in accordance with the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes.

The Florida Security for Public Deposits Act established guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral.

The total cash and cash equivalents and investment balances of the City at September 30, 2009, are comprised of the following items:

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 4 - Detailed Notes on all Funds (Continued)

A. Deposits and Investments (Continued)

	<u>Amount</u>	<u>Credit Rating</u>	<u>Investment Maturity</u>
Cash and Cash Equivalents			
Petty Cash on Hand	\$ 4,893		
Cash in Checking Accounts	8,126,645		
Cash with Paying Agent	101,515		
Cash in Money Market Accounts	<u>99,000</u>	Unrated	1 to 5 Years
Total Cash and Cash Equivalents	<u>8,332,053</u>		
Investments			
Investment with State Board of Administration:			
Florida PRIME	5,406,600	AAAm (S&P)	Less Than 1 Year
Fund B	153,372	Unrated	6 to 10 Years
Certificates of Deposit	<u>6,256,696</u>	Unrated	Less Than 1 Year
Total Investments	<u>11,816,668</u>		
Total Cash, Cash Equivalents, and Investments	20,148,721		
(Cash and Equivalents, Restricted)	(5,392,141)		
(Cash in Pension Funds)	<u>(1,793,936)</u>		
Total Cash, Cash Equivalents, and Investments, Unrestricted	<u>\$ 12,962,643</u>		

Restricted cash and cash equivalents at September 30, 2009 in the enterprise funds are as follows:

<u>Enterprise Fund</u>	<u>Customer Deposits</u>	<u>Renewal and Replacement</u>	<u>Debt Service</u>	<u>Impact Fees</u>	<u>Project Costs</u>	<u>Rate Stabilization</u>	<u>Total</u>
Sanitation	\$ 62,754	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 62,754
Sewer	131,617	0	402,789	27,947	3,068,458	0	3,630,811
Water	120,557	185,317	107,641	0	103,786	700,000	1,217,301
Airport	<u>10,805</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>470,471</u>	<u>0</u>	<u>481,276</u>
Total	<u>\$ 325,733</u>	<u>\$ 185,317</u>	<u>\$ 510,430</u>	<u>\$ 27,947</u>	<u>\$ 3,642,715</u>	<u>\$ 700,000</u>	<u>\$ 5,392,142</u>

Authorized Investments

Florida Statute 218.415 authorizes the City to invest in the state pools and in obligations of the United States Treasury and agencies. The state pools are 2a7-like pools, carried at amortized cost, which approximates market. A 2a7-like pool is not registered with the SEC as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, which comprises the rules governing money market funds. Thus, these pools operate essentially as money market funds. Throughout the year and as of September 30, 2009, the pools contained certain floating and adjustable rate securities which were indexed based on the prime rate and/or one and three-month LIBOR rates. During 2008, the State Board of Administration (SBA), who provides oversight for the Local Government Surplus Trust Fund (now Florida PRIME), reported that the fund was exposed to potential risks due to indirect exposure in the sub-prime mortgage financial market. Consequently, the SBA placed some restrictions on how participants could access portions of their surplus funds and ultimately restructured the pool into two separate pools (Florida PRIME and Fund B).

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 4 - Detailed Notes on all Funds (Continued)

A. Deposits and Investments (Continued)

Risk Disclosure

The City's investments conform to the provisions of Florida Statutes, Section 218.415. The following items discuss the City and pension funds' exposure to various risks in primarily the fixed rate portions of their investment portfolios.

- *Interest Rate Risk*—The City has fixed rate investments that would be subject to interest rate risk. The City's investment policy states that investment maturities will be structured to match known cash needs and anticipated cash flow requirements. Currently, all of the City's investments except for SBA Fund B have maturities of less than one year. The weighted average life (based on expected future cash flows) of Fund B at September 30, 2009, is estimated at 6.69 years. However, because Fund B consists of restructured or defaulted securities there is considerable uncertainty regarding the weighted average life.

Listed below are the investments and maturities in the City's pension trust funds at September 30, 2009:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>Less Than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More Than 10 Year</u>
Equities	\$ 14,593,326	\$ 14,593,326	\$ 0	\$ 0	\$ 0
Mortgages	1,850,238	0	0	176,702	1,673,536
Municipals	222,562	0	0	0	222,562
U.S. Government Securities	597,338	0	0	0	597,338
Federal Agency Securities	1,031,383	0	156,856	60,117	814,410
Corporate Bonds	<u>3,277,011</u>	<u>256,185</u>	<u>1,051,988</u>	<u>1,551,320</u>	<u>417,518</u>
Total	\$ 21,571,858	\$ 14,849,511	\$ 1,208,844	\$ 1,788,139	\$ 3,725,364

Custodial Credit Risk—For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's pension plans generally utilize third party custodians to help manage custodial credit risk.

Concentration of Credit Risk—The pension funds' investment policies and practices require investments to be diversified to the extent practicable to control the risk of loss resulting from an overconcentration of assets in a specific maturity, issuer, instrument, dealer or bank through which financial instruments are purchased and sold. No more than 5% of the plans' assets shall be invested in the common stock or capital stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed 5% of the outstanding capital stock of the company. Foreign securities shall not exceed 10% of the value at cost of the fund.

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 4 - Detailed Notes on all Funds (Continued)

A. Deposits and Investments (Concluded)

Risk Disclosure (Concluded)

Credit Quality Risk—The City’s investment policy authorizes investment in SEC registered securities with the highest credit quality ratings (AAA/AA) from nationally recognized rating agencies. The City’s pension plans’ investment policy requires that fixed income securities be rated AAA, AA, or A by Standard & Poor’s or Aaa, Aa, or A by Moody’s. The credit quality distribution for the City’s pension trust fund investments with credit exposure as a percentage of the total pension investment is as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Percent of Total</u>
Equities	Unrated	67.6%
U.S. Government Securities	N/A	2.8%
Federal Agency Securities	N/A	4.8%
Mortgages	AAA	0.7%
Mortgages	Unrated	7.9%
Corporate Bonds	A++	0.7%
Corporate Bonds	A+	5.0%
Corporate Bonds	A	8.1%
Corporate Bonds	A-	0.6%
Corporate Bonds	AA	0.2%
Corporate Bonds	AAA	0.6%
Municipal Bonds	AA	0.7%
Municipal Bonds	AAA	0.4%

B. Receivables

Receivables as of year-end, including the applicable allowances for uncollectible accounts, are as follows:

	Utility		Capital			Internal				Total
	General	Tax	Improvement	Airport	Sanitation	Sewer	Water	Marina	Service	
Accounts Receivable	\$ 680,717	\$ 75,840	\$ 0	\$ 42,381	\$ 246,145	\$ 480,970	\$ 441,223	\$ 30,788	\$ 11,156	\$ 2,009,220
Assessments Receivable	0	0	15,536	0	0	0	0	0	0	15,536
Gross Receivables	680,717	75,840	15,536	42,381	246,145	480,970	441,223	30,788	11,156	2,024,756
(Allowances for Uncollectables)	0	0	0	(8,000)	(24,485)	(46,915)	(50,977)	(12,253)	0	(142,630)
Net Total Receivables	<u>\$ 680,717</u>	<u>\$ 75,840</u>	<u>\$ 15,536</u>	<u>\$ 34,381</u>	<u>\$ 221,660</u>	<u>\$ 434,055</u>	<u>\$ 390,246</u>	<u>\$ 18,535</u>	<u>\$ 11,156</u>	<u>\$ 1,882,126</u>

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 4 - Detailed Notes on all Funds (Continued)

C. Capital Assets

Capital asset activity for the year ended September 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 211,886	\$ 117,110	\$ (124,647)	\$ 204,349
Land	10,639,250	0	0	10,639,250
Total Capital Assets Not Being Depreciated	<u>10,851,136</u>	<u>117,110</u>	<u>(124,647)</u>	<u>10,843,599</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	12,515,798	1,474,083	0	13,989,881
Equipment, Furniture Fixtures and Vehicles	6,728,525	471,795	(133,534)	7,066,786
Infrastructure	27,271,603	391,104	0	27,662,707
Total Capital Assets Being Depreciated	<u>46,515,926</u>	<u>2,336,982</u>	<u>(133,534)</u>	<u>48,719,374</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(6,118,062)	(419,030)	0	(6,537,092)
Equipment, Furniture Fixtures and Vehicles	(4,934,221)	(602,930)	133,534	(5,403,617)
Infrastructure	(15,023,700)	(1,204,619)	0	(16,228,319)
Total Accumulated Depreciation	<u>(26,075,983)</u>	<u>(2,226,579)</u>	<u>133,534</u>	<u>(28,169,028)</u>
Total Being Depreciated, Net	<u>20,439,943</u>	<u>110,403</u>	<u>0</u>	<u>20,550,346</u>
Total Governmental Activities				
Capital Assets, Net	<u>\$ 31,291,079</u>	<u>\$ 227,513</u>	<u>\$ (124,647)</u>	<u>\$ 31,393,945</u>
Business-type Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 738,790	\$ 0	\$ 0	\$ 738,790
Construction in Progress	1,032,013	1,073,673	(703,792)	1,401,894
Total Capital Assets, Not Being Depreciated	<u>1,770,803</u>	<u>1,073,673</u>	<u>(703,792)</u>	<u>2,140,684</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	76,683,267	6,378,602	(150,000)	82,911,869
Equipment, Furniture Fixtures and Vehicles	4,876,779	122,163	(105,390)	4,893,552
Total Capital Assets Being Depreciated	<u>81,560,046</u>	<u>6,500,765</u>	<u>(255,390)</u>	<u>87,805,421</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(23,030,507)	(2,707,503)	150,000	(25,588,010)
Equipment, Furniture Fixtures and Vehicles	(4,144,557)	(390,307)	105,390	(4,429,474)
Total Accumulated Depreciation, Net	<u>(27,175,064)</u>	<u>(3,097,810)</u>	<u>255,390</u>	<u>(30,017,484)</u>
Total Business-type Activities				
Capital Assets, Net	<u>\$ 56,155,785</u>	<u>\$ 4,476,628</u>	<u>\$ (703,792)</u>	<u>\$ 59,928,621</u>

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 4 - Detailed Notes on All Funds (Continued)

C. Capital Assets (Concluded)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities		
General Government		\$ 67,510
Public Safety		437,109
Public Works		1,288,507
Recreation		404,238
Internal Service Fund – Garage		29,215
Total		<u>\$ 2,226,579</u>
Business-type Activities		
Golf		\$ 265,055
Airport		802,523
Sewer		987,247
Water		837,360
Marina		199,163
Internal Service Funds – Utility		6,462
Total		<u>\$ 3,097,810</u>

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2009, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Central Garage	\$ 1,431
General Fund	Central Garage	24,078
General Fund	Marina Fund	1,035,000
General Fund	Golf Fund	135,000
General Fund	Airport Fund	739,745
		<u>\$ 1,935,254</u>

The interfund amounts were used to cover deficits in cash in balances due to timing of collections. Of the total interfund loan between the general fund and the airport fund, \$300,351 is not expected to be collected within one year.

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 4 - Detailed Notes on all Funds (Continued)

D. Interfund Receivables, Payables and Transfers (Concluded)

Interfund Transfers:

	Transfers In					Total
	General Fund	Capital Improvement Fund	Nonmajor Governmental Fund	Sewer Fund	Stormwater Management Fund	
Transfers Out						
General Fund	\$ 0	\$ 0	\$ 499,000	\$ 0	\$ 50,000	\$ 549,000
Utility Tax Fund	2,000,000	0	0	0	0	2,000,000
Nonmajor Govern- mental Fund	0	73,860	0	0	0	73,860
Golf Course Fund	24,000	0	0	0	0	24,000
Sanitation Fund	36,000	0	0	0	0	36,000
Sewer Fund	86,864	0	0	0	0	86,864
Water Fund	173,727	0	0	140,800	0	314,527
Internal Service Funds	<u>7,500</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,500</u>
Total	<u>\$ 2,328,091</u>	<u>\$ 73,860</u>	<u>\$ 499,000</u>	<u>\$ 140,800</u>	<u>\$ 50,000</u>	<u>\$ 3,091,751</u>

The interfund transfers were used to assist with funding of expenses/expenditures.

E. Leases

Operating Leases

The City leases office equipment under various operating leases. The future minimum lease payments for these leases are as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 53,788
2011	53,788
2012	53,788
2013	40,001

Capital Leases

The City has entered into various lease agreements as a lessee for financing a fire truck, golf carts, and other equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2009, were as follows:

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 4 - Detailed Notes on all Funds (Continued)

E. Leases (Concluded)

Capital Leases (Concluded)

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2010	\$ 73,852	\$ 18,606
2011	73,851	0
2012	73,850	0
Total Minimum Lease Payments (Amounts Representing Interest)	<u>221,553</u>	<u>18,606</u>
Present Value of Minimum Lease Payments	<u>\$ 202,441</u>	<u>\$ 18,281</u>

F. Long-term Debt

General Obligations Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The General Obligation Bonds, Series 2001, with an original issuance amount of \$6,000,000 are currently outstanding. The proceeds of the bonds were used to acquire environmentally sensitive lands and for other parks and recreation improvements.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds were issued as \$5,115,000 of serial bonds and \$885,000 of term bonds. The remaining General Obligation Bonds, Series 2001, outstanding are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Governmental Activities	4% - 5%	\$ 4,500,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 270,000	\$ 203,030
2011	285,000	191,420
2012	295,000	178,880
2013	310,000	165,605
2014	325,000	151,267
2015-2019	1,870,000	507,459
2020-2021	885,000	67,000
Total	<u>\$ 4,240,000</u>	<u>\$ 1,464,661</u>

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 4 - Detailed Notes on all Funds (Continued)

F. Long-term Debt (Continued)

Revenue Bonds and Notes

The government also issues bonds and revenue notes where the City pledges income derived from the acquired or constructed assets or other governmental fees and taxes to pay debt service. Revenue bonds and notes outstanding at year end are as follows:

<u>Issue and Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Government Activities		
Public Safety:		
Capital Improvement Revenue Refunding Notes:		
Series 2005	3.77%	\$ 1,414,769
Culture and Recreation:		
Capital Improvement Revenue Refunding Notes:		
Series 2005	3.77%	328,077
Total Government Activities Revenue Bonds and Notes		<u><u>\$ 1,742,846</u></u>
Business-type Activities		
Water:		
Utility Acquisition Bonds, Series 2003	2%-5%	\$ 21,394,069
Sewer:		
Utility Acquisition Bonds, Series 2003	2%-5%	10,090,930
Utility Refunding Bonds, Series 2004	3.85%	4,020,000
Marina:		
Capital Improvement Revenue Refunding Notes:		
Series 2005	3.77%	3,988,604
Revenue Note, Series 2009	4.40%	1,300,000
Airport:		
Revenue Note, 1995	2%-3%	18,264
Revenue Note, 1996	2%-3%	197,000
Revenue Note, 1996B	2%-3%	16,401
Revenue Note, 2007	4.28%	765,000
Golf:		
Capital Improvement Revenue Refunding Notes:		
Series 2005	3.77%	1,318,550
Revenue Notes, Series 2008	2.98%	237,507
Total Business-type Activities Revenue Bonds and Notes		<u><u>\$ 43,346,325</u></u>

Governmental activities revenue bonds and notes debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 130,200	\$ 66,830
2011	136,400	61,853
2012	141,360	56,795
2013	146,320	52,136
2014	151,280	45,644
2015-2019	851,880	136,739
2020-2024	185,406	7,319
Total	<u><u>\$ 1,742,846</u></u>	<u><u>\$ 427,316</u></u>

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 4 - Detailed Notes on all Funds (Continued)

F. Long-term Debt (Continued)

Revenue Bonds and Notes (Concluded)

Business-type activities revenue bonds and notes debt service requirements to maturity are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 1,437,688	\$ 1,975,154
2011	1,489,781	1,831,946
2012	1,540,444	1,777,560
2013	1,594,392	1,718,541
2014	1,583,720	1,689,171
2015-2019	8,994,120	7,319,181
2020-2024	7,016,993	5,304,460
2025-2029	8,765,000	4,078,605
2030-2034	10,924,387	1,449,924
Total	<u>\$ 43,346,525</u>	<u>\$ 27,144,542</u>

In October 2005, the City replaced a portion of its outstanding debt with a total outstanding balance of \$5,344,241, with the issuance of the Capital Improvement Refunding Revenue Notes, Series 2005. The following issuances were replaced: Golf Revenue Note, Series 1998; Marina Revenue Note, Series 1998A; Marina Revenue Note, Series 1999A; Marina Revenue Note, Series 2001A; Franchise Fee Revenue Note, Series 2000A; Sales Tax Revenue Note, Series 2000B; and Capital Improvement Revenue Note, Series 2004. The purpose of the new notes, in the amount of \$9,005,000, was twofold; one to refinance the above-mentioned existing debt; and two to provide additional funds for Marina improvements, \$2,400,000; and improvements at the City Golf Course, \$1,200,000. The new debt retired all of the City's outstanding interest rate swap agreements.

Futures Payable

The principal purpose for issuance of the Utility Acquisition and Improvement Revenue Bonds, Series 2003, was to fund the purchase of the FPU Water System (System) pursuant to an Agreement for Purchase and Sale of Water Assets dated December 3, 2002, by and between Florida Public Utilities Company, as seller, and the City, as purchaser. The purchase price for the System was \$18,950,000 paid at closing, plus payments ("Futures") due no later than February 15 in the years 2004 through 2010 in the amount of \$1,500 for each Equivalent Meter Connection added to the System in the previous calendar year, but not to exceed \$7,500,000 in total payments. If at the end of the year 2009 less than \$7,500,000 in Futures has been due and paid, the difference between the Futures due and paid and \$7,500,000 is due on February 15, 2010. The payments of Futures will be funded from impact fees received from future water customers to the extent of actual new connections. If projections of the Consulting Engineer are realized, it is expected that a remaining Futures payment of approximately \$5,300,000 will be due on February 15, 2010, which is expected to be financed from a combination of System revenue resources, money in the renewal and replacement fund and a potential future bond issue secured by System revenues.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 4 - Detailed Notes on all Funds (Continued)

F. Long-term Debt (Continued)

Futures Payable (Concluded)

Based upon those projections and actual payments made to-date, the balance due as of September 30, 2009 is \$5,877,750.

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds Payable:					
General Obligation					
Bonds	\$ 4,500,000	\$ 0	\$ (260,000)	\$ 4,240,000	\$ 270,000
(Deferred Amounts for Issuance Discounts)	<u>(10,753)</u>	<u>0</u>	<u>1,371</u>	<u>(9,382)</u>	<u>(1,301)</u>
Total Bonds Payable	4,489,247	0	(258,629)	4,230,618	268,699
Revenue Notes Payable	1,867,687	0	(124,841)	1,742,846	130,200
Capital Leases	330,398	0	(127,957)	202,441	73,853
Compensated Absences	839,771	838,969	(788,152)	890,588	890,588
Other Postemployment Benefits	<u>0</u>	<u>181,000</u>	<u>0</u>	<u>181,000</u>	<u>0</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 7,527,103</u>	<u>\$ 1,019,969</u>	<u>\$ (1,299,579)</u>	<u>\$ 7,247,493</u>	<u>\$ 1,363,340</u>
Business-type Activities					
Bonds Payable:					
Revenue Bonds and Notes	\$ 43,374,321	\$ 1,300,000	\$ (1,327,996)	\$ 43,346,325	\$ 1,458,481
(Deferred Amounts for Issuance Discounts)	<u>(245,828)</u>	<u>0</u>	<u>21,892</u>	<u>(223,936)</u>	<u>(20,793)</u>
Total Revenue Bonds and Notes Payable	43,128,493	1,300,000	(1,306,104)	43,122,389	1,437,688
Capital Leases	55,183	0	(36,902)	18,281	18,281
Compensated Absences	231,418	229,767	(304,057)	157,128	157,128
Other Postemployment Benefits	0	56,900	0	56,900	0
Futures Payable	<u>5,986,583</u>	<u>143,167</u>	<u>(252,000)</u>	<u>5,877,750</u>	<u>5,877,750</u>
Total Business-type Activities Long-term Liabilities	<u>\$ 49,401,677</u>	<u>\$ 1,729,834</u>	<u>\$ (1,899,063)</u>	<u>\$ 49,232,448</u>	<u>\$ 7,490,847</u>

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 4 - Detailed Notes on all Funds (Concluded)

F. Long-term Debt (Concluded)

Pledged Revenue

Pledged revenues on the City's outstanding debt for the year ended September 30, 2009, was as follows:

	<u>Revenue Pledged</u>	<u>Pledged Through</u>	<u>Original Amount</u>	<u>Remaining Balance</u>	<u>Principal and Interest Payments</u>	<u>Revenue Received</u>	<u>Estimated Percentage Pledged</u>
Governmental Activities							
Capital Improvement Revenue Refunding Bonds, Series 2005	Half-cent Sales Tax	2020	\$ 2,233,240	\$ 1,742,846	\$ 196,230	\$ 581,700	34%
General Obligation Bonds, Series 2001	Voter Approved Ad-Valorem Tax	2021	6,000,000	4,240,000	473,950	474,000	100%
Business-type Activities							
Capital Improvement Revenue Refunding Bonds, Series 2005	Electric Franchise Fees	2020	6,771,760	5,307,154	597,549	1,156,755	52%
Utility Acquisition Bonds, Series 2003	Net Utilities Revenues	2033	32,985,000	31,484,999	1,899,549	3,517,159	54%
Utility Refunding Bonds and Vehicles	Net Utilities Revenues Including Impact Fees	2017	5,780,000	4,020,000	516,398	3,517,159	15%
Revenue Note, Series 2008	Golf Revenues	2013	292,631	237,507	63,200	1,570,804	4%
Revenue Note, Series 1995	Airport Lease Income	2011	45,663	18,264	9,852	541,225	2%
Revenue Note, Series 1996	Airport Lease Income	2017	264,000	197,000	31,912	541,225	6%
Revenue Note, Series 1996B	Airport Lease Income	2012	30,138	16,401	5,345	541,225	1%
Revenue Note, Series 2007	Airport Lease Income	2022	850,000	765,000	79,669	541,225	15%
Revenue Note, Series 2009	Net Marina Revenues, CRA Revenues	2024	1,300,000	1,300,000	0	162,781	0

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 5 - Other Information

A. Commitments and Contingencies

Grant Programs

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects amounts, if any, to be immaterial.

Litigation

The City is currently involved in various forms of litigation. In one particular case, the City is the defendant in a breach of lease lawsuit. The plaintiff was seeking damages of up to \$4,000,000. The case has been in arbitration since 2004. During the fiscal year ended September 30, 2009, the arbitrator prepared a final ruling which was subsequently upheld in County court. The amount awarded to the plaintiff was approximately \$410,000. The execution of the judgment is stayed until the outstanding issue regarding the attorney's fees is resolved. No provision for this loss has been made in the financial statements at this time due to the potential to recover attorney fees and insurance coverage.

Construction Commitments

As of September 30, 2009, the City had the following commitments related to unfinished capital projects:

<u>Project</u>	<u>Expended as of 9/30/2009</u>	<u>Remaining Commitment</u>
Sadler Road Greenway Access	\$ 25,001	\$ 109,809
Kayak Launch	9,130	4,270
Downtown Boardwalk	64,502	3,230
2.5MGD Treatment Train	2,299,285	306,768
Taxiway C Extension Construction	619,741	79,098
TERPS Survey & Runway Mapping	17,616	28,439
Auto OF Plant and Rerate	388,061	44,063
Plant Step Screen	0	178,000
Lift Station Upgrades	0	16,780

B. Employee Pension Plans

General Employees Pension Plans (GEPP)

- *Plan Description*—All regular full-time City employees who are not classified as full-time sworn police officers or firefighters are eligible to participate in the GEPP, a single-employer, defined benefit pension plan. The GEPP is administered by a Board of Trustees established by City Ordinance. GEPP provides retirements, disability, and death benefits to plan members. These benefits are established and can be amended by City Ordinance. Revisions to the plan were effective in 2007, allowing vesting in the plan to occur after six years of credited service instead of ten.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)

Note 5 - Other Information (Continued)

B. Employee Pension Plans (Continued)

General Employees Pension Plans (GEPP) (Continued)

- *Funding Policy*—The funding policy is established by City Ordinance. The City’s funding policy is to provide amounts recognized to pay current costs and amortize unfunded past service cost over 30 years. Employees who are Plan A members are required to contribute 3.1% of the covered payroll to the plan. Employees who are Plan B members do not contribute to the plan. The City’s contribution is actuarially determined. Employees employed prior to February 1, 1993, had the option to elect either Plan A or Plan B. Any employees employed after February 1, 1993, are under Plan A. Benefits under Plan A are 2.75% of Average Final Compensation times Credited Service. Benefits under Plan B are 1.9% of Average Final Compensation times Credited Service.

- *Actuarial Assumption*—The Annual Required Contribution (ARC) for the current year was determined as part of the October 1, 2007, actuarial valuations for the General Employees’ Retirement Plan using the entry-age actuarial cost method. The actuarial assumptions include an 8.0% rate of return on investments, projected salary increases of 3.0% per year attributable to inflation, and projected salary increases of 2.0% attributable to seniority/merit.

The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial accrued liabilities are being amortized over a remaining amortization period of 30 years as a closed level percentage of active member payroll.

- *Annual Pension Cost*—The City’s contribution requirement for the year ended September 30, 2009, was \$433,812.

- *Investment*—The City’s investments in the GEPP are reported at fair value.

Three-Year Trend Information

<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>% of</u> <u>APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
9/30/09	\$ 433,812	100%	\$ 0
9/30/08	406,346	100%	0
9/30/07	325,371	100%	0

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 5 - Other Information (Continued)

B. Employee Pension Plans (Continued)

General Employees Pension Plans (GEPP) (Concluded)

■ *Schedule of Funding Progress—*

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
10/1/2008	<u>\$ 12,378,005</u>	<u>\$ 18,799,875</u>	<u>\$ 6,421,370</u>	65.84%	<u>\$5,223,260</u>	122.94%

Police Officers' and Firefighters' Pension Plan (FPOP)

■ *Plan Description*—All of the City's full-time police officers and full-time firefighters are eligible to participate in the FPOP, a single-employer, defined benefit pension plan. The FPOP is administered by a Board of Trustees established by City Ordinance. FPOP provides retirement, disability, and death benefits to plan members. Plan members vest in the Plan after six years of creditable service. These benefits are established and amended by City Ordinance.

■ *Funding Policy*—The City's funding policy is to provide for periodic employee rates that are designed to accumulate sufficient assets to pay benefits when due. The employees are required to contribute 6.9% of salary to the plan. The State of Florida also contributes to the Plan. The City is required to contribute the remaining amounts, per an actuarial valuation, necessary to pay current costs and amortize unfunded past service costs over 30 years.

■ *Actuarial Assumptions*—The ARC for the current year was determined as part of the October 1, 2007, actuarial valuations for the Police Officers' and Firefighters' Retirement Plan using the entry-age actuarial cost method. The actuarial assumptions include an 8.0% rate of return on investments, projected salary increases of 3.0% per year attributable to inflation, and projected salary increases of 2.0% attributable to seniority/merit.

The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial accrued liabilities are being amortized over a remaining amortization period of 30 years as a closed level percentage of active member payroll.

■ *Annual Pension Cost*—The City's contribution requirement for the year ended September 30, 2009, was \$351,589.

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 5 - Other Information (Continued)

B. Employee Pension Plans (Concluded)

Police Officers' and Firefighters' Pension Plan (FPOP) (Concluded)

- *Investments*—The City's pension plan investments are reported at fair value.

Three-Year Trend Information

<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>% of</u> <u>APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
9/30/09	\$ 351,589	100%	\$ 0
9/30/08	333,563	100%	0
9/30/07	343,852	100%	0

- *Schedule of Funding Progress*—

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u> <u>Entry Age</u>	<u>Unfunded</u> <u>(Overfunded)</u> <u>AAL</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percentage of</u> <u>Covered</u> <u>Payroll</u>
10/1/2008	\$ 14,434,289	\$ 21,456,217	\$ 7,021,928	67.27%	\$3,106,891	226.01%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

C. Other Postemployment Benefits (OPEB)

For the fiscal year ended September 30, 2009, the City implemented GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB), for certain postemployment health care benefits provided by the City. The requirements of this statement were implemented prospectively.

Plan Description

The City offers postemployment medical, dental and life insurance benefits to any employee who satisfies the vesting, disability, early or normal retirement provisions of the applicable retirement plan (GERS or FPOP). Eligibility requirements for retirement under the City's two retirement systems may be obtained by writing to the City Clerk, City of Fernandina Beach, 11 North Third Street, Fernandina Beach, Florida 32250, or by calling (904) 247-6250. According to the Substantive Plan, retired police officers, firefighters and general employees as well as their dependents are permitted to remain covered under the City's medical plans as long as they pay the premium charged by the insurance company for the plan and coverage elected. This conforms to the minimum requirements of governmental employers under Chapter 112.08, Florida Statutes. The plan does not issue separate financial statements.

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 5 - Other Information (Continued)

C. Other Postemployment Benefits (OPEB) (Continued)

Plan Description (Concluded)

As of October 1, 2008, the latest actuarial valuation date, there were 203 active participants and 42 retirees receiving medical benefits. The amount of the contributions required for retiree and dependent coverage may change from time-to-time. Life insurance coverage was not considered other postemployment benefits for purposes of this actuarial valuation.

Funding Policy

Currently the City's OPEB benefits are unfunded. That is, there is no separate trust fund or equivalent arrangement into which the City would make contributions to advance-fund the obligation, as it does for its pension plans. Therefore, the ultimate subsidies which are provided over time are financed directly by the general assets of the City, which are invested in very short-term fixed income instruments. Although an actuarial valuation for OPEBs was completed to measure current year's subsidies and project future subsidies, the City Council has determined that a separate trust fund or equivalent arrangement will not be established.

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost is the amount that was expensed for the fiscal year. Since the City's OPEB plan is unfunded, the only offset to that expense comes from premiums paid by the current retirees. These premiums are payroll deducted from the retiree's pension payment. The cumulative difference between the annual OPEB cost since inception and the retiree premiums paid (employer contribution) since inception is called the net OPEB obligation. The total net OPEB obligation is \$237,900 and is reflected as a liability in the statement of net assets (\$181,000 governmental, \$56,900 business-type). Data is only presented for the fiscal year ending September 30, 2009, the first year in which GASB Statement No. 45 implementation is required. The following table shows the components of the City's annual OPEB cost for the year and the net pension obligation for fiscal year ended September 30, 2009:

	<u>2009</u>
Normal Cost	\$ 205,300
Amortization of Unfunded Actuarial Accrued Liability	105,500
Interest on Normal Cost and Amortization	<u>6,200</u>
Annual Required Contribution (ARC)	<u>\$ 317,000</u>
Net OPEB Obligation, Beginning of Year	\$ 0
Annual Required Contribution	317,000
Employer Contribution Toward the OPEB Cost	<u>(79,100)</u>
Net OPEB Obligation, End of Year	<u>\$ 237,900</u>

The schedule of employer contributions is as follows:

Year Ended	Annual OPEB Cost	Estimated Amount Contributed	Percentage of Annual OPEB Cost Contributed	Estimated Net OPEB Obligation
<u>September 30</u>	<u>Cost</u>	<u>Contributed</u>	<u>Contributed</u>	<u>Obligation</u>
2009	<u>\$ 317,000</u>	<u>\$ 79,100</u>	24.95%	<u>\$ 237,900</u>

**NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

Note 5 - Other Information (Continued)

C. Other Postemployment Benefits (OPEB) (Concluded)

Funded Status and Funding Progress

The funded status of the plan is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
10/1/2008	\$ 0	\$ 3,164,200	\$ 3,164,200	0.00%	\$ 8,500,725	37.22%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funding status of a plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of the valuation and the historical pattern of sharing benefit costs between the employer and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2008, actuarial valuation, the entry age normal cost method with an increasing normal cost pattern with salary increase assumptions was used. The actuarial assumptions included a 4% investment rate of return (since there are no invested plan assets held in trust to finance the OPEB obligations, the investment return discount rate is the long-term expectation of investment return on assets held in City funds pursuant to its investment policy) and an annual health care cost trend rate. Per capita costs for medical and Dental benefits are assumed to increase 10% for Pre and Post-Medical coverage in 2008. This rate decreases at a rate of 1% per year until an ultimate rate of 5% is reached. The UAAL, as calculated pursuant to the individual entry age actuarial cost method, is being amortized as a level percent of payroll over a thirty-year period with thirty years remaining. A closed amortization method is used. The assumed rate of payroll growth is a weighted-average of such rates used in pension valuations and is equal to 4%.

D. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

NOTES TO FINANCIAL STATEMENTS
CITY OF FERNANDINA BEACH, FLORIDA
(Concluded)

Note 5 - Other Information (Concluded)

E. Deferred Compensation Plan

The City maintains two deferred compensations plans created in accordance with Internal Revenue Code, Section 457.

F. Subsequent Event

On February 2, 2010, the City issued the Utility System Subordinate Revenue Bonds, Series 2010 in the amount of \$5,215,000. The funds were used to pay off the FPU futures liability which was due on February 15, 2010. The bonds bear a fixed interest rate of 4.59% with a fifteen-year term and a balloon payment due in 2024.

REQUIRED SUPPLEMENTARY INFORMATION

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes, Licenses and Permits	\$ 11,491,695	\$ 11,491,695	\$ 11,072,710	\$ (418,985)
Intergovernmental	971,310	971,310	930,539	(40,771)
Fines and Forfeitures	57,000	57,000	78,966	21,966
Charges for Services	988,000	988,000	881,149	(106,851)
Other	484,854	484,854	273,507	(211,347)
Total Revenues	<u>13,992,859</u>	<u>13,992,859</u>	<u>13,236,871</u>	<u>(755,988)</u>
Expenditures				
General Government	3,319,692	3,442,533	3,063,174	379,359
Public Safety	8,917,932	8,978,632	8,203,159	775,473
Transportation	1,263,085	1,280,967	1,078,207	202,760
Economic Environment	64,687	62,457	56,656	5,801
Human Services	200,900	157,400	103,264	54,136
Culture and Recreation	2,428,126	2,458,626	2,289,804	168,822
Debt Service:				
Principal	167,727	167,727	167,725	2
Interest	60,563	60,563	59,482	1,081
(Total Expenditures)	<u>(16,422,712)</u>	<u>(16,608,905)</u>	<u>(15,021,471)</u>	<u>1,587,434</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(2,429,853)</u>	<u>(2,616,046)</u>	<u>(1,784,600)</u>	<u>831,446</u>
Other Financing Sources (Uses)				
Transfers in	2,328,091	2,328,091	2,328,091	0
Transfers (out)	(524,000)	(549,000)	(549,000)	0
Total Other Financing Sources (Uses)	<u>1,804,091</u>	<u>1,779,091</u>	<u>1,779,091</u>	<u>0</u>
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing Uses	<u>(625,762)</u>	<u>(836,955)</u>	<u>(5,509)</u>	<u>831,446</u>
Fund Balances, Beginning of Year	<u>7,443,053</u>	<u>7,443,053</u>	<u>7,443,053</u>	<u>0</u>
Fund Balances, End of Year	<u>\$ 6,817,291</u>	<u>\$ 6,606,098</u>	<u>\$ 7,437,544</u>	<u>\$ 831,446</u>

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
UTILITY TAX FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes, Licenses and Permits	\$ 1,540,000	\$ 1,540,000	\$ 1,675,690	\$ 135,690
Other	36,000	36,000	(1,263)	(37,263)
Total Revenues	<u>1,576,000</u>	<u>1,576,000</u>	<u>1,674,427</u>	<u>98,427</u>
Expenditures				
Contingency Reserve	360,000	360,000	0	360,000
(Total Expenditures)	<u>(360,000)</u>	<u>(360,000)</u>	<u>0</u>	<u>360,000</u>
Excess of Revenues Over Expenditures	<u>1,216,000</u>	<u>1,216,000</u>	<u>1,674,427</u>	<u>458,427</u>
Other Financing Sources (Uses)				
Transfers (out)	(2,000,000)	(2,000,000)	(2,000,000)	0
Total Other Financing Sources (Uses)	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>(2,000,000)</u>	<u>0</u>
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing Uses	(784,000)	(784,000)	(325,573)	458,427
Fund Balances, Beginning of Year	<u>937,325</u>	<u>937,325</u>	<u>937,325</u>	<u>0</u>
Fund Balances, End of Year	<u><u>\$ 153,325</u></u>	<u><u>\$ 153,325</u></u>	<u><u>\$ 611,752</u></u>	<u><u>\$ 458,427</u></u>

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
COMMUNITY REDEVELOPMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes, Licenses and Permits	\$ 23,841	\$ 23,841	\$ 23,581	\$ (260)
Other	6,000	6,000	730	(5,270)
Total Revenues	<u>29,841</u>	<u>29,841</u>	<u>24,311</u>	<u>(5,530)</u>
Expenditures				
Economic Environment	350,000	350,000	241,849	108,151
Contingency Reserve	42,400	42,400	0	42,400
(Total Expenditures)	<u>(392,400)</u>	<u>(392,400)</u>	<u>(241,849)</u>	<u>150,551</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(362,559)</u>	<u>(362,559)</u>	<u>(217,538)</u>	<u>145,021</u>
Fund Balances, Beginning of Year	<u>414,113</u>	<u>414,113</u>	<u>414,113</u>	<u>0</u>
Fund Balances, End of Year	<u>\$ 51,554</u>	<u>\$ 51,554</u>	<u>\$ 196,575</u>	<u>\$ 145,021</u>

**GENERAL EMPLOYEES' PENSION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA**

**SCHEDULE OF FUNDING PROGRESS
(As of October 1, 2008, the Date of the Latest Available Information)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
10/01/08	\$ 12,378,505	\$ 18,799,875	\$ 6,421,370	65.84%	\$ 5,223,260	122.94%
10/01/07	12,550,893	16,969,961	4,419,068	73.96%	4,975,549	88.82%
10/01/06	11,719,446	16,369,038	4,649,592	71.60%	4,210,940	110.42%
10/01/05	11,022,462	15,548,577	4,526,115	70.89%	3,828,674	118.22%
10/01/04	10,692,096	14,887,478	4,195,382	71.82%	3,624,959	115.74%
10/01/03	10,536,209	12,425,672	1,889,463	84.79%	3,262,343	57.92%

**GENERAL EMPLOYEES' PENSION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA
(Continued)**

**SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND
OTHER CONTRIBUTING ENTITIES
(As of October 1, 2008, the Date of the Latest Available Information)**

<u>Year Ended September 30,</u>	<u>Annual Required Contribution</u>	<u>City Contribution</u>	<u>Percentage Contributed</u>
2009	\$ 433,812	\$ 433,812	100.00%
2008	406,346	406,346	100.00%
2007	325,371	325,371	100.00%
2006	366,237	366,237	100.00%
2005	298,750	298,750	100.00%
2004	271,806	271,806	100.00%

**GENERAL EMPLOYEES' PENSION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA
(Concluded)**

Contribution Rates and Information as of September 30, 2008:

City	8.0%
Plan Members	6.5%
Annual Pension Cost	\$406,346
Contributions Made	\$406,346
Date of Latest Actuarial Review	October 1, 2008
Determination of Contribution Requirement	Actuarially Determined
Funding of Administrative Costs	Investment Earnings
Funding Method	Frozen Entry Age Actuarial Cost Method
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortizing Period	30 Years
Annual Rate of Return Used for Discounting	8%
Annual Rate of Salary Increase*	5%
*Includes Inflation at 3%	
Period Required to Vest	100% After 6 Years of Credited Service
Normal Retirement	Earliest of 35 Years Credited Service or Age 55 and 25 Years Credited Service, or Age 65 and 6 Years Credited Service
Provisions for:	
Disability Benefits	Yes
Death Benefits	Yes
Membership for the Plan is as Follows:	
Active Members	125
Retirees and Beneficiaries Currently Receiving Benefit, Terminated Employees Entitled to Benefits but Not Yet Receiving Them, and Employees in the Deferred Retirement Option Plan	<u>78</u>
Total	<u>203</u>

**FIREFIGHTERS' AND POLICE OFFICERS' PENSION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA**

**SCHEDULE OF FUNDING PROGRESS
(As of October 1, 2008, the Date of the Latest Available Information)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
10/01/08	\$ 14,434,289	\$ 21,456,217	\$ 7,021,928	67.27%	\$ 3,106,891	226.01%
10/01/07	14,567,071	18,362,991	3,795,920	79.33%	3,078,073	123.32%
10/01/06	13,243,636	17,510,974	4,267,338	75.63%	2,876,988	148.33%
10/01/05	11,996,417	16,992,385	4,995,968	70.60%	2,791,242	178.99%
10/01/04	11,154,290	15,764,316	4,610,026	70.76%	2,603,955	177.04%
10/01/03	10,812,235	12,450,106	1,637,871	86.84%	2,432,939	67.32%

**FIREFIGHTERS' AND POLICE OFFICERS' PENSION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA
(Concluded)**

**SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND
OTHER CONTRIBUTING ENTITIES
(As of October 1, 2008, the Date of the Latest Available Information)**

Year Ended September 30,	Annual Required Contribution	City Contribution	State Contribution*	Percentage Contributed
2009	\$ 612,068	\$ 351,589	\$ 273,307	102.10%
2008	575,909	333,563	256,107	102.39%
2007	560,906	343,852	218,298	100.22%
2006	600,721	388,670	212,372	100.05%
2005	657,896	481,001	212,051	105.34%
2004	560,778	383,883	196,857	103.56%

*State Contributions in Actuarial Report are an estimate based on previous years contributions.
The resulting contribution difference between the actuarial report and actual contributions is not considered a negative net pension obligation.

Contribution Rates and Information as of September 30, 2008:

City	10.9%
Plan Members	5.0%
Annual Pension Cost	\$319,802
Contributions Made	\$333,563
Date of Latest Actuarial Review	October 1, 2008
Determination of Contribution Requirement	Actuarially Determined
Funding of Administrative Costs	Investment Earnings
Funding Method	Frozen Entry Age Actuarial Cost Method
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	30 Years
Asset Valuation Method	4 Year Smooth (Market)
Annual Rate of Return Used for Discounting	8%
Annual Rate of Salary Increase*	5%
*Includes Inflation at 3%	
Period Required to Vest	100% After 6 Years of Credited Service
Normal Retirement	25 Years Credited Service or Age 55 and 6 Years Credited Service
Provisions for:	
Disability Benefits	Yes
Death Benefits	Yes
Membership for the Plan is as Follows:	
Active Members	57
Retirees and Beneficiaries Currently	
Receiving Benefit, Terminated Employees	
Entitled to Benefits but Not Yet Receiving	
Them, and Employees in the Deferred Retirement	
Option Plan	<u>42</u>
Total	<u><u>99</u></u>

**OTHER POSTEMPLOYMENT BENEFITS PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA**

**SCHEDULE OF FUNDING PROGRESS
(As of October 1, 2008, the Date of the Latest Available Information)**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll (b-a)/(c)</u>
10/01/08	\$ 0	\$ 3,164,200	\$ 3,164,200	0.00%	\$ 8,500,725	37.22%

**SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND
OTHER CONTRIBUTING ENTITIES
(As of October 1, 2008, the Date of the Latest Available Information)**

<u>Year Ended September 30,</u>	<u>Annual OPEB Cost</u>	<u>Estimated Amount Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Estimated Net OPEB Obligation</u>
2009	\$ 317,000	\$ 79,100	24.95%	\$ 237,900

ADDITIONAL INFORMATION

CITY OF FERNANDINA BEACH, FLORIDA

OFFICIALS

SEPTEMBER 30, 2009

CITY COMMISSIONERS

Susan Hardee Steger, Mayor

Eric Childers, Vice-Mayor

Jeffrey Bunch

Tim Poynter

Ken Walker

CITY MANAGER

Michael J. Czymbor

CITY CLERK

Mary L. Mercer

CITY ATTORNEY

Tammi E. Bach

**ADDITIONAL ELEMENTS OF REPORT PREPARED
IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*, ISSUED BY THE COMPTROLLER
GENERAL OF THE UNITED STATES AND
OMB CIRCULAR A-133**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA**

<u>Federal or State Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State CSFA Number</u>	<u>Contract Number</u>	<u>Program Amount</u>	<u>Expenditures</u>
Federal Financial Awards					
U.S. Department of Agriculture					
Pass-through Florida Department of Agriculture and Consumer Services Urban and Community Forestry Grant	10.664		14012	\$ 15,000	\$ 9,800
U.S. Department of Homeland Security					
Pass-through Florida Division of Emergency Management: SAFER Grant	97.044		EMW-2007-FF-00420	281,502	45,314
Hazard Mitigation Grant Program	97.039		FEMA-1785-DR-FL	7,847	7,847
				<u>289,349</u>	<u>53,161</u>
U.S. Department of Interior					
Pass-through Florida Fish and Wildlife Conservation Commission Boating Infrastructure Grant Program	15.622		05192	1,571,500	716,114
U.S. Department of Justice					
Pass-through Florida Department of Law Enforcement: Justice Assistance Grant - Bulletproof Vests	16.738		2009-JAGD-NASS-696	1,329	1,329
U.S. Department of Transportation					
Federal Aviation Administration Airport Improvement Program: Rehabilitation of Taxiway C and Design East Area Drainage	20.106		3-12-022-018-2009	752,722	679,688
Total Federal Awards				<u>2,629,900</u>	<u>1,460,092</u>
State Financial Assistance					
Florida Department of Environmental Protection					
Nassau County Beach Restoration		37.003	07NA1	2,327,710	24,338
Florida Department of Health					
Emergency Management Equipment Grant		64.003	M8066	24,750	10,093

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2009
CITY OF FERNANDINA BEACH, FLORIDA
(Concluded)**

Federal or State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State CSFA Number	Contract Number	Program Amount	Expenditures
State Financial Assistance (Concluded)					
Florida Department of Transportation					
Aviation Development Grants:					
Runway Improvements - TERPES		55.004	APE03	\$ 32,000	\$ 14,093
Design and Rehabilitation of Taxiway 13/31		55.004	APC98	640,000	63,000
Rehabilitation of Taxiway C and Design East Area Drainage		55.004	APG00	161,150	1,205
				<u>833,150</u>	<u>78,298</u>
Total State Financial Assistance				<u>3,185,610</u>	<u>112,729</u>
Total Federal Awards and State Financial Assistance				<u>\$ 5,815,510</u>	<u>\$ 1,572,821</u>

**NOTE TO SCHEDULE OF EXPENDITURES FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
CITY OF FERNANDINA BEACH, FLORIDA**

Note 1 - General

The accompanying schedule of expenditures of federal awards and state financial assistance presents the activity of all federal awards programs and state financial assistance projects of the City of Fernandina Beach, Florida (the City). The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The City reporting entity is defined in Note 1 to the City's basic financial statements for the year ended September 30, 2009. All federal awards and state financial assistance received directly from federal agencies or state agencies, as well as federal awards and state financial assistance passed through other governmental agencies, are included in the schedule.

Note 2 - Basis of Accounting

The accompanying schedule of expenditures of federal awards and state financial assistance is presented using the same basis of accounting as the fund in which the grant is recorded, generally the accrual or modified accrual basis, as described in Note 1 to the City's financial statements.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARDS PROGRAMS
CITY OF FERNANDINA BEACH, FLORIDA**

1. Summary of Audit Results

Financial Statements

I. Type of Audit Report Issued on Financial Statements

Unqualified Opinion

II. Significant Deficiency and/or Material Weaknesses in Internal Control

Audit disclosed no significant deficiencies in internal control over financial reporting.

III. Noncompliance Material to Auditee Financial Statements

Audit disclosed no material instances of noncompliance.

Federal Awards Programs

IV. Significant Deficiencies and/or Material Weaknesses in Internal Control Over Major Federal Awards Programs

Audit disclosed no significant deficiencies and/or material weaknesses in internal control over major federal award programs that are required to be reported in the schedule of findings and questioned costs.

V. Type of Audit Report Issued on Compliance with Requirements Applicable to Major Federal Awards Programs

Unqualified Opinion

VI. Audit Findings Relative to Major Programs

The audit disclosed no findings required to be reported under Section 510(a) of OMB Circular A-133.

VII. Programs Tested as Major Programs

<u>Major Program</u>	<u>CFDA No.</u>
Rehabilitation of Taxiway C and Design East Area Drainage	20.106
Boating Infrastructure Grant Program	15.622

VIII. Dollar Threshold Used to Distinguish Between Type A and Type B Projects

\$300,000.

IX. Low Risk Auditee

The City did not qualify as a low-risk auditee under OMB Circular A-133.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARDS PROGRAMS
CITY OF FERNANDINA BEACH, FLORIDA
(Concluded)**

2. Findings Related to the Financial Statements Required to be Reported Under Generally Accepted Government Auditing Standards (GAGAS)

The audit disclosed no findings which are required to be reported under GAGAS.

3. Findings and Questioned Costs for Major Federal Awards Programs

The audit disclosed no findings for federal awards programs which are required to be reported under OMB Circular A-133.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina Beach, Florida

Compliance

We have audited the compliance of the City of Fernandina Beach, Florida (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal program for the year ended September 30, 2009. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards, rules, and OMB Circular A-133, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2009.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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The Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina Beach, Florida

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Concluded)**

Internal Control Over Compliance (Concluded)

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Honorable Mayor and City Commissioners and management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

February 11, 2010
Tallahassee, Florida

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina Beach, Florida

We have audited the financial statements of the City of Fernandina Beach, Florida (the City), as of and for the year ended September 30, 2009, and have issued our report thereon dated February 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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The Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina Beach, Florida

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*
(*Concluded*)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Honorable Mayor and City Commissioners and management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

February 11, 2010
Tallahassee, Florida

MANAGEMENT LETTER

The Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina Beach, Florida

We have audited the financial statements of the City of Fernandina Beach, Florida (the City), as of and for the year ended September 30, 2009, and have issued our report thereon dated February 11, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; We have issued our report on internal control over financial reporting and compliance and other matters, report on compliance with requirements applicable to each major federal award program and on internal control over compliance, and schedule of findings and questioned costs. Disclosures in those reports and schedule, which are dated February 11, 2010, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedule:

- Section 10.554(1)(i)1, *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.
- Section 10.554(1)(i)2, *Rules of the Auditor General*, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3, *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we offer the following recommendation:
 - **Grant Policies and Procedures**
During our review of grants, we noted that there are currently no written policies and procedures in place for the grants coordinator to follow. We recommend the development of written policies and procedures that address the following areas at a minimum:

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MANAGEMENT LETTER
(Continued)

- **Grant Policies and Procedures (Concluded)**
 - ▶ The submission and approval of grant applications.
 - ▶ Requirements of the department heads to notify the grants coordinator of grants applied for, obtained or denied.
 - ▶ The methodology used and the party responsible for tracking of grant reporting deadlines.
 - ▶ The parties responsible for preparation, submission and approval of grant reimbursement requests.
 - ▶ The party responsible for preparation of the schedule of federal awards and state financial assistance.
 - ▶ The party responsible for reconciling grant reimbursement requests to the general ledger and how often this procedure is to be performed.
 - ▶ The party responsible for monitoring compliance with provisions of federal and state Single Audit requirements.

- Section 10.554(1)(i)4, *Rules of the Auditor General*, requires that we address violations of provisions of contracts or grant agreements, or abuse that have an effect on the determination of financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

- Section 10.554(1)(i)5, *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such findings.

- Section 10.554(1)(i)6, *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. In addition, the annual financial audit report for the City also includes the accounts and transactions of the following entities, which do not satisfy the definition of component units because they are not legally separate from the City:

Entity	Presentation
City of Fernandina Beach General Employees' Retirement System	Blended
City of Fernandina Beach Police Officers' and Firefighters' Retirement System	Blended
City of Fernandina Beach Redevelopment Agency	Blended

- Section 10.554(1)(i)7.(a), *Rules of the Auditor General*, requires a statement to be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

The Honorable Mayor and City Commissioners
City of Fernandina Beach
Fernandina Beach, Florida

MANAGEMENT LETTER
(Concluded)

- Section 10.554(1)(i)7.(b), *Rules of the Auditor General*, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2009, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2009. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7(c) and 10.556(7), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of our audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

Purvis, Gray and Company, LLP

February 11, 2010
Tallahassee, Florida



City of Fernandina Beach

Responses to Independent Auditor's Management Letter Required by Chapter 10.550, Rules of the Auditor General

Grants Policies and Procedures

We agree that written policies and procedures for the City's grant related activities would strengthen our reporting. Internally, we could improve our methods used to recognize revenue in the proper period in the general ledger. Good written policies and procedures would also result in better monitoring and compliance with our federal and state grantors. The Grants Administrator will work during the 2009/2010 fiscal year to draft a grant policies and procedures manual.